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HIRAM WALKER RESOURCES LTD.

ANNUAL REPORT 1985

HIRAM WALKER RESOURCES LTD.

HIRAM WALKER RESOURCES LTD.

NOTICE OF MEETING
MANAGEMENT INFORMATION CIRCULAR AND PROXY STATEMENT

ANNUAL MEETING
FEBRUARY 5, 1986

HIRAM WALKER RESOURCES LTD.

HIRAM WALKER RESOURCES LTD.
1 First Canadian Place, Suite 600 P.O. Box 33 Toronto, Ontario M5X 1A9

December 20, 1985

To the Shareholders of
Hiram Walker Resources Ltd.:

We are pleased to invite you to be with us for the Annual Meeting of Shareholders of Hiram Walker Resources Ltd. to be held in The Cleary Auditorium and Memorial Convention Hall, 201 Riverside Drive West, Windsor, Ontario, on Wednesday, February 5, 1986, at 11:00 a.m. Your Directors have decided to hold the meeting in this location to enable the many shareholders from the Windsor/Detroit area to renew their close association with the Company.

The items of business to be considered at this meeting are listed in the Notice of Meeting and described more fully in the attached Management Information Circular and Proxy Statement.

We hope you will attend this meeting. Whether or not you are able to attend personally, you are requested to sign, date and return your proxy as soon as conveniently possible. It is important that your shares be represented at the meeting, regardless of the number you hold.

Yours truly,

A. E. DOWNING
Chairman

NOTICE OF MEETING
OF HOLDERS OF COMMON SHARES,
7½% VOTING PREFERENCE SHARES AND SECOND SERIES CLASS D SHARES

Notice is hereby given that an Annual Meeting of the holders of Common Shares ("Common Shares"), 7½% Cumulative Convertible Redeemable Voting Preference Shares Class D, First Series ("7½% Voting Preference Shares") and Class D Preference Shares, Second Series ("Second Series Class D Shares") of Hiram Walker Resources Ltd. will be held in The Cleary Auditorium and Memorial Convention Hall, 201 Riverside Drive West, Windsor, Ontario, on Wednesday, February 5, 1986, at the hour of 11:00 o'clock a.m. for the following purposes:

(i) to receive the Consolidated Financial Statements of Hiram Walker Resources Ltd. for the year ended September 30, 1985, and the Auditors' Report on the Consolidated Financial Statements;

(ii) to elect directors to serve for the ensuing year;

(iii) to appoint auditors and to authorize the directors to fix their remuneration; and

(iv) to transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

Shareholders are invited to attend the meeting. Only shareholders of record at the close of business on December 20, 1985, will be entitled to vote at the meeting except to the extent that a person has transferred any shares after that date and the new holder of such shares establishes proper ownership and requests not later than January 24, 1986, to be included in the list of shareholders for the meeting.

A Management Information Circular and Proxy Statement accompanies this Notice of Meeting.

By Order of the Board,

E. W. H. TREMAIN
Vice President and Secretary

Dated at Toronto this 20th day of December, 1985.

Note:

A form of proxy is enclosed. Shareholders are requested to date, sign and return the enclosed form of proxy for use at the Meeting whether or not you are able to attend personally. **To be effective, proxies must be received before 9:30 o'clock a.m. Toronto time on February 5, 1986, by Canada Permanent Trust Company, 20 Eglinton Avenue West, Toronto, Ontario, M4R 2E2, or be presented at the Meeting.**

MANAGEMENT INFORMATION CIRCULAR AND PROXY STATEMENT

General Information

This Management Information Circular and Proxy Statement (the "Circular") is furnished in connection with the solicitation of proxies by and on behalf of the Management of HIRAM WALKER RESOURCES LTD. (the "Company") for use at the Annual Meeting of Shareholders (the "Meeting") of the Company to be held on Wednesday, February 5, 1986, for the purposes set out in the accompanying Notice of Meeting. Except as otherwise stated, the information contained herein is given as of November 29, 1985. It is anticipated that copies of the Circular will be distributed to shareholders on or before December 30, 1985.

The solicitation will be primarily by mail but proxies may also be solicited personally or by telephone by employees of the Company or by such agents as the Company may appoint. The cost of solicitation will be borne by the Company.

To be effective, proxies must be received before 9:30 o'clock a.m. Toronto time on February 5, 1986, by Canada Permanent Trust Company, 20 Eglinton Avenue West, Toronto, Ontario, M4R 2E2, or be present at the Meeting.

The Annual Report of the Company for the fiscal year ended September 30, 1985, including financial statements, accompanies this Circular, and such financial statements are incorporated herein by reference.

No person is authorized to give any information or to make any representations other than those contained in this Circular and, if given or made, such information must not be relied upon as having been authorized.

In this Circular, Hiram Walker Resources Ltd. is sometimes referred to as the Company; Hiram Walker-Gooderham & Worts Limited is sometimes referred to as HW-GW; Home Oil Company Limited is sometimes referred to as Home; The Consumers' Gas Company Ltd. is sometimes referred to as Consumers'; and Interprovincial Pipe Line Limited is sometimes referred to as Interprovincial. HW-GW, Home and Consumers' are subsidiaries of the Company and Interprovincial is 34.4 percent owned by the Company.

Matters of Particular Interest to United States Shareholders

This Circular is furnished in connection with the solicitation of proxies on behalf of the Board of Directors of Hiram Walker Resources Ltd.

Exchange Rates for Canadian Dollars

All dollar amounts in this document are expressed in Canadian dollars, unless otherwise stated. The exchange rate between the Canadian (Cdn.) dollar and the United States (U.S.) dollar is not fixed. The high and low noon day rates for the Canadian dollar as recorded by the Federal Reserve Bank of New York for the year ended September 30, 1985 were $0.7638 and $0.7130 U.S ($1 U.S. equals $1.3092 Cdn. and $1 U.S. equals $1.4025 Cdn., respectively) and for the period October 1, 1985 to November 29, 1985 were $0.7335 and $0.7225 U.S. ($1 U.S. equals $1.3634 Cdn. and $1 U.S. equals $1.3840 Cdn., respectively). On November 29, 1985, the exchange rate was $0.7225 U.S. ($1 U.S. equals $1.3840 Cdn.).

MANAGEMENT INFORMATION CIRCULAR AND PROXY STATEMENT

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Appointment of Proxy and Discretionary Authority

A shareholder has the right to appoint a person (who need not be a shareholder of the Company), other than persons designated in the form of proxy accompanying this Circular, as nominee to attend and act for and on behalf of such shareholder at the Meeting and may exercise such right by inserting the name of such person in the blank space provided in the proxy form. If a shareholder appoints a person designated in the form of proxy as nominee and does not direct the said nominee to vote either in favour of, or against, or abstain on, a matter or matters with respect to which an opportunity to specify how the shares registered in the name of such shareholder shall be voted, the proxy shall be voted in favour of such matter or matters.

The enclosed proxy confers discretionary authority upon the proxy nominees with respect to amendments or variations to the matters identified in the Notice of Meeting and other matters which may properly come before the Meeting.

The shares represented by proxy at the Meeting will be voted or withheld from voting in accordance with the instructions of the shareholder on any ballot that may be called for and, where the person whose proxy is solicited specifies a choice with respect to any matter to be voted upon, the shares shall be voted in accordance with the specifications so made.

Management knows of no matters to come before the Meeting other than the matters referred to in the accompanying Notice of Meeting. However, if any other matters which are not now known to Management should properly come before the Meeting, the shares represented by proxies in favour of Management nominees will be voted on such matters in accordance with the best judgement of the proxy nominee.

Revocability of Proxy

Proxies given by shareholders may be revoked at any time prior to their use, by instrument in writing executed by the shareholder or by his attorney authorized in writing or, if the shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized indicating the capacity under which such officer or attorney is signing, and deposited either at the head office of the Company at any time up to and including 5:00 o'clock p.m. on the last business day preceding the day of the Meeting or any adjournment thereof, or with the Chairman of the Meeting on the day of the Meeting or any adjournment thereof, or in any other manner permitted by law, including, without limitation, personal attendance at the Meeting.

Voting Shares

On November 29, 1985, 75,398,799 Common Shares (''Common Shares''), 13,630,962 7½% Cumulative Convertible Redeemable Voting Preference Shares Class D, First Series (''7½% Voting Preference Shares'') and 13,600,000 Class D Preference Shares, Second Series (''Second Series Class D Shares'') of the Company were outstanding. The Common Shares, 7½% Voting Preference Shares and Second Series Class D Shares entitle the holders of record thereof on December 20, 1985, to one vote per share at the Annual Meeting except to the extent that a person has transferred any shares after the record date and the new holder of such shares establishes proper ownership and requests not later than January 24, 1986, to be included in the list of shareholders for the Meeting.

Interprovincial Pipe Line Limited, Post Office Box 48, 1 First Canadian Place, Toronto, Ontario, M5X 1A9 beneficially owns 911,700 Common Shares (which represent 1.2 percent of the Common Shares outstanding and 0.9 percent of the voting shares outstanding) and all of the 13,600,000 Second Series Class D Shares outstanding (which represent 13.5 percent of the voting shares outstanding). In total, Interprovincial owns 14.1 percent of the voting shares outstanding. (The Company owns 34.4 percent of the voting shares of Interprovincial.)

Reichmann Holdings Limited, Post Office Box 20, 32nd Floor, 1 First Canadian Place, Toronto, Ontario, M5X 1B5 and its Olympia & York affiliates (collectively ''Olympia & York'') beneficially own 10,961,043 Common Shares (which represent 14.5 percent of the Common Shares outstanding and 10.7 percent of the voting shares outstanding), and 116,250 (1988) Warrants to purchase Common Shares at $32.50 (which represents 2.1 percent of the (1988) Warrants outstanding). Assuming full conversion of the Olympia & York holdings into Common Shares, its ownership would total 11,077,293 Common Shares which would represent 10.8 percent of the voting shares presently outstanding. Olympia & York has stated that it has sole voting power over these shares and has indicated that these shares were acquired for investment purposes.

Caisse de depot et placement du Quebec (''Caisse''), 1981, Avenue McGill College, Montreal, Quebec H3A 3C7 beneficially owns 4,896,942 Common Shares (which represent 6.5 percent of the Common Shares outstanding and 4.8 percent of the voting shares presently outstanding). Caisse has stated that these shares were acquired for investment purposes.

To the knowledge of the directors and officers of the Company, no other person owns or exercises control or direction over voting securities of the Company carrying more than five percent of the votes attached to such securities.

Particulars of Matters to be Acted Upon at the Meeting

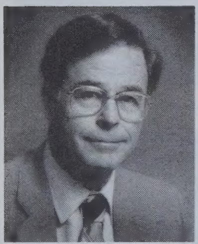
Election of Directors

The Board of Directors of Hiram Walker Resources Ltd. has determined that the number of directors to be elected at the Annual Meeting shall be reduced from 20 to 18. The 18 persons whose names are set out below are nominated for election as directors of the Company to serve until the next Annual Meeting of Shareholders or until their successors are elected or appointed. Shares represented by proxies in favour of Management nominees will be voted in favour of the election of such persons. In the event that any vacancies occur in the slate of such nominees, the discretionary authority conferred by the proxies appointing Management nominees will be exercised to vote such proxies for the election of any other person or persons nominated by Management. The Company, however, does not anticipate any such occurrence.

Nominees for Election as Directors

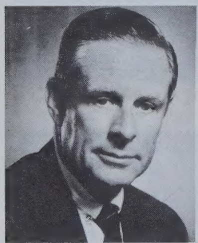
The following are the nominees for election as directors of the Company.(1)

Securities of the Company(2)



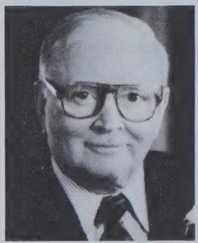
ALFRED E. DOWNING: Director,
Chairman, President and Chief Executive Officer (3)(5)
Company director since 1981; HW-GW director since 1971;
Age 62.
Chairman, President and Chief Executive Officer since 1984; and President of HW-GW for more than four years prior thereto.

Common Shares 61,041
(1988) Warrants 1,500



CHARLES T. FISHER, III: Director
Company director since 1981; HW-GW director since 1967;
Age 56.
Chairman and President of National Bank of Detroit since 1982 and President for more than two years prior thereto.

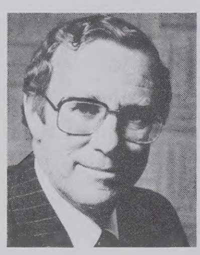
Common Shares 550



W. DOUGLAS H. GARDINER: Director
Company director since 1984;
Age 68.
President of W.D.H.G. Financial Associates Ltd. (financial consulting) for more than five years.

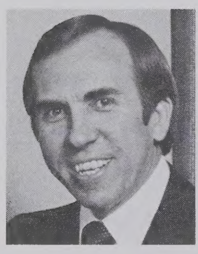
Common Shares 200

Securities of the Company[2]



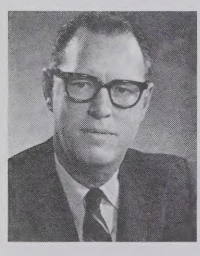
GORDON C. GRAY: Director
Company director since 1981; Consumers' director from 1978 to 1982;
Age 58.
Chairman of Royal LePage Limited (real estate) since 1984 and Chairman and Chief Executive Officer of A.E. LePage Limited for more than four years prior thereto.

7½% Voting Preference Shares 2,500



RICHARD F. HASKAYNE: Director and Executive Vice President [3][4]
Company director since 1982;
Age 50.
President of Home since 1982; President of Hudson's Bay Oil and Gas Company Limited for two years prior thereto.

Common Shares 22,179

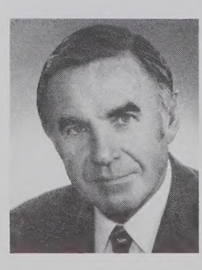


H. CLIFFORD HATCH: Director and Chairman of the Executive Committee [3][4]
Company director since 1981; HW-GW director since 1946;
Age 69.
Corporate Director since 1984; Chairman, President and Chief Executive Officer from 1982 to 1984, and Chairman for two years prior thereto.

Common Shares 391,175

H. CLIFFORD HATCH, JR.: Director and Executive Vice President [3][4][5]
Company director since 1981; HW-GW director since 1980;
Age 43.
President of HW-GW since 1984 and Vice President for more than four years prior thereto.

Common Shares 31,312



ROBERT S. HURLBUT: Director
Company director since 1981; Consumers' director since 1976;
Age 61.
Chairman of General Foods, Inc. (food processing) for more than five years.

Nil

Securities of the Company(2)

HENRY N. R. JACKMAN: Director (4)(6)
Company director since 1981; Home director during 1979;
Age 53.
Chairman of The Empire Life Insurance Company for more than five years.

Common Shares 143,600
14.16% Preference Shares 224,000
7½% Voting Preference Shares 167,301
(1986) Warrants 16,000
(1988) Warrants 129,025

LUCILLE M. JOHNSTONE: Director
Company director since 1984;
Age 61.
President and Chief Operating Officer of RivTow Straits Limited (marine transportation) since 1985; and Senior Vice-President, Administration & Secretary for more than five years prior thereto.

Nil

ALLEN T. LAMBERT: Director (3)
Company director since 1981; HW-GW director since 1969;
Age 73.
Chairman of Trilon Financial Corporation (financial services) since 1982; and a Corporate Director for more than two years prior thereto.

Common Shares 20,576

PETER L. P. MACDONNELL, Q.C.: Director
Company director since 1981; Home director from 1975 to 1979;
Age 66.
Partner in the law firm of Milner & Steer for more than five years.

(1988) Warrants 775

ROBERT W. MARTIN: Director and Executive Vice President (6)
Company director since 1984; Consumers' director since 1980;
Age 49.
President of Consumers' since 1981 and Senior Vice President for more than one year prior thereto.

Common Shares 4,347
(1988) Warrants 2,000

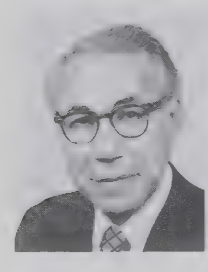
Securities of the Company(2)

EDMOND G. ODETTE: Director (3)(4)
Company director since 1981; HW-GW director since 1978;
Age 59.
President of Eastern Construction Company Limited
for more than five years.

Common Shares 55,632
9½% Convertible Preference Shares 4,000

STANLEY G. OLSON: Director
Company director since 1981;
Age 67.
Corporate director for more than five years.

Common Shares 100



JOHN T. SAPIENZA: Director
Company director since 1981; HW-GW director since 1971;
Age 72.
Partner in the law firm of Covington & Burling
for more than five years.

Common Shares 4,125

ROBERT C. SCRIVENER: Director (6)
Company director since 1981; HW-GW director since 1975;
Age 70.
Corporate director for more than five years.

Common Shares 550

WILLIAM P. WILDER: Director (3)(6)
Company director since 1981; Consumers' director since 1979;
Age 63.
Chairman of Consumers' since 1981;
Deputy Chairman of the Company from 1982 to 1984, and
President and Chief Executive Officer for more than
two years prior thereto.

Common Shares 3,590
7½% Voting Preference Shares 30,000

All directors, nominees for election as directors, and senior officers as a group (of which there are 24) and their associates hold 788,556 (1.0 percent of the outstanding) Common Shares, 228,000 (11.4 percent of the outstanding) 14.16% Preference Shares, 4,000 (0.1 percent of the outstanding) 9½% Convertible Preference Shares, 199,827 (1.5 percent of the outstanding) 7½% Voting Preference Shares, 16,000 (0.8 percent of the outstanding) (1986) Warrants and 133,300 (2.5 percent of the outstanding) (1988) Warrants. (2)(3)(4)(5)(6)(7)

No director or senior officer of the Company with the exception of Mr. Jackman as indicated in Note (4) below, owns beneficially more than one percent of any class of outstanding equity securities or voting securities of the Company, or of any subsidiary of the Company.

(1) *All such persons are Canadian citizens with the exception of Messrs. Fisher, Olson and Sapienza who are citizens of the United States. Mr. Hatch is the father of Mr. Hatch, Jr.*

(2) *The above table includes shares of each class and warrants as to which the nominee exercises, as of September 30, 1985, sole or shared voting or dispositive power either directly or through companies or foundations of which they are directors and/or officers, and options to purchase shares of the Company exercisable within 60 days, as reported to the Company by each nominee.*

(3) *The above table includes securities of the Company owned beneficially by or for the benefit of members of the families or in trusts for which family members act as trustee (in which case beneficial ownership may have been disclaimed) of directors and senior officers, as follows: Mr. Downing - 55 Common Shares; Mr. Haskayne - 1,000 Common Shares; Mr. Hatch - 20,000 Common Shares; Mr. Hatch, Jr. - 543 Common Shares; Mr. Lambert - 6,600 Common Shares; Mr. Martin - 2,000 (1988) Warrants; Mr. Odette - 14,882 Common Shares; Mr. Wilder - 5,000 7½% Preference Shares; all directors, nominees for election as directors, and senior officers as a group - 48,071 Common Shares, 4,000 14.16% Preference Shares, 5,026 7½% Voting Preference Shares and 2,000 (1988) Warrants.*

(4) *The above table includes securities of the Company owned by companies, foundations or trusts of which the following persons are directors, officers, owners (to varying degrees), trustees and/or beneficiaries: Mr. Haskayne - 1,000 Common Shares; Mr. Hatch - 354,675 Common Shares; Mr. Hatch, Jr. - 28,389 Common Shares; Mr. Jackman - 143,600 Common Shares, 224,600 14.16% Preference Shares, 167,301 7½% Voting Preference Shares, 16,000 (1986) Warrants and 129,025 (1988) Warrants; Mr. Odette - 40,750 Common Shares; Mr. Wilder - 25,000 7½% Voting Preference Shares; all directors, nominees for election as directors and senior officers as a group - 548,914 Common Shares, 224,000 14.16% Preference Shares, 4,000 9½% Convertible Preference Shares, 212,301 7½% Voting Preference Shares, 16,000 (1986) Warrants and 129,025 (1988) Warrants.*

(5) *Equity securities of Corby Distilleries Limited, a partially-owned subsidiary of the Company, are beneficially owned by the following or by members of their families: Mr. Downing - 200 common shares; Mr. Hatch, Jr. - 200 common shares and 1,148 Class A voting preference shares; all directors, nominees for election as directors, and senior officers as a group - 400 Common Shares and 1,148 Class A voting preference shares.*

(6) *Equity securities of The Consumers' Gas Company Ltd., a partially-owned subsidiary of the Company, are beneficially owned by the following persons or for the benefit of their families or by companies of which they are directors: Mr. Jackman - 67,100 common shares, 1,000 5½% Series B preference shares, 116,700 13½% preference shares and 30,700 9¼% preference shares; Mr. Martin - 2,106 common shares; Mr. Scrivener - 200 common shares; Mr. Wilder - 1,363 common shares; all directors, nominees for election as directors, and senior officers as a group - 71,569 common shares, 1,000 5½% Series B preference shares, 116,700 13½% preference shares and 31,000 9¼% preference shares.*

(7) *The definition of senior officer for reporting purposes in Ontario is consistent with the definition of officer for reporting purposes in the U.S.*

None of the directors listed above holds directorships in any company other than a subsidiary of the Company or Interprovincial, with a class of securities registered pursuant to Section 12 of the United States Securities Exchange Act of 1934 or which is subject to the requirements of Section 15(d) of such Act or which is registered as an investment company under the United States Investment Company Act of 1940, except as follows:

Name of Director	Name of Companies in which such Directorship held
Mr. Fisher	AMR Corporation (American Airlines), Detroit Edison Company, General Motors Corporation and NBD Bancorp, Inc.
Mr. Gardiner	Alexander and Alexander Services Inc.
Mr. Gray	McDonald's Corporation and Rogers Cablesystems, Inc.
Mr. Haskayne	The Manufacturers Life Insurance Company
Mr. Hatch	Bell Canada Enterprises, Inc.
Mr. Hurlbut	Northern Telecom Limited, Rio Algom Limited and Genstar Financial Corp.
Mr. Jackman	Massey-Ferguson Ltd.
Mrs. Johnstone	B.C. Resources Investment Corporation
Mr. Lambert	Dome Mines Limited, Dome Petroleum Limited, Inspiration Resources Corporation and PanAmerican Banks, Inc.
Mr. Macdonnell	IU International Corporation and Echo Bay Mines Ltd.
Mr. Scrivener	Northern Telecom Ltd., United States Steel Corp., Caterpillar Tractor Co. and Commerce Union Corp.

Remuneration of Directors for Attendance at Board and Committee Meetings

The Company pays directors' fees in the amount of $15,000 annually per director. A director is paid a meeting fee of $500 for each meeting of the Board or a committee thereof attended by him and is compensated for his incidental out-of-pocket expenses. A director is paid in addition $2,500 annually as a member of any committee of the Board of Directors and $1,500 as Chairman of any such committee. All such amounts are paid in Canadian dollars to directors who are Canadian residents and in United States dollars to directors who are residents of the United States. Directors who are also employees receive no remuneration for serving as a Director of the Company.

Board and Committees

The Executive Committee comprises Messrs. Hatch, Downing, Fisher, Gray, Jackman, Lambert, Torno (presently a director and not standing for re-election) and Wilder. The Executive Committee held five meetings during the year ended September 30, 1985. Between meetings of the Board, the Executive Committee exercises all the powers of the Board, except such powers as by law must be exercised by the Board itself. The Executive Committee also acts as the Nominating Committee of the Board. In this role as Nominating Committee, the Executive Committee considers, for election as director, nominees recommended by members of the Board and nominees recommended by the shareholders upon such shareholder's written request submitted in a timely manner to the Company at its head office. In addition, the Executive Committee makes recommendations with regard to the renomination of directors previously elected.

The Audit Committee, comprising Messrs. Gray, Hurlbut and Odette, held three meetings during the year ended September 30, 1985. The function of the Audit Committee is to recommend the firm or firms of chartered accountants to be proposed for appointment as auditors by the shareholders, to review the scope of work to be done by both external and internal auditors and the results thereof, to make recommendations to the Board as to actions required with respect to items arising out of such audits as are deemed appropriate, to review the annual consolidated financial statements and auditors' report before they are submitted to the Board for approval and to review the adequacy of financial controls.

The Management Resources and Compensation Committee, comprising Messrs. Torno, Cross (presently directors and not standing for re-election), Hurlbut, Olson and Scrivener held four meetings during the year ended September 30, 1985. The function of this Committee is to review the compensation programmes of the Company and to make recommendations thereon to the Board and to review and make recommendations relating to management succession.

The Pension Committee, comprising Messrs. Lambert, Jackman and Wilder, held four meetings during the year ended September 30, 1985. The function of the Pension Committee is to assist the Board in its fiduciary responsibilities with regard to the investment management of pension funds of the Company's subsidiaries and to make recommendations to the Board relating thereto as well as with regard to pension benefits.

There were eight meetings of the Board during the year ended September 30, 1985. All members of the Board who are nominated for re-election have attended at least 75 percent of the total of the meetings of the Board and Committees of the Board of which they were members during the year with the exception of Mr. Macdonnell who attended 50 percent of the meetings.

Appointment of Auditors

Price Waterhouse, Chartered Accountants, have been auditors of HW-GW for many years and of the Company since 1981.

Representatives of Price Waterhouse are expected to be present at the Meeting with the opportunity to make a statement if they so desire and to respond to appropriate questions.

Shares represented by proxies in favour of management nominees will be voted in favour of the appointment of Price Waterhouse as auditors of the Company and the authorization of the directors to fix their remuneration.

Remuneration and Other Information

Executive Compensation

The following table sets forth the total cash compensation paid by the Company and its subsidiaries for services rendered to the Company in all capacities during the year ended September 30, 1985, to each of the five highest paid executive officers of the Company and to all executive officers of the Company as a group.

Name	Capacities in which served	Cash Compensation
A. E. Downing	Chairman, President, Chief Executive Officer and Director	$ 523,633
H. C. Hatch, Jr.	Executive Vice President and Director	$ 366,333
R. F. Haskayne	Executive Vice President and Director	$ 349,000
A. R. McCallum	Senior Vice President and Chief Financial Officer	$ 292,754
R. W. Martin	Executive Vice President and Director	$ 251,750
All executive officers as a group (of which there were 8)		$2,181,787

Bonus, Option and Other Remuneration Plans

Company Share Option Plan

The Hiram Walker Resources Ltd. Share Option Plan ("Share Option Plan") was approved by the shareholders on February 4, 1981. The Share Option Plan provides for the granting of options to employees to purchase Common Shares of the Company at prices equal, in the discretion of the Executive Committee, either to the market value of the Common Shares on the date of grant or on any date within a 30-day period before or after the date of grant or the average market value of the Common Shares over a specified period within such 30-day periods. Since February, 1983, the Share Option Plan has also provided for the granting of options as incentive stock options under the United States Internal Revenue Code. Only certain key employees of the Company and its subsidiaries are eligible to receive options under the Share Option Plan. As at September 30, 1985 options to acquire 1,203,565 unissued Common Shares were outstanding and held in the aggregate by approximately 330 employees. The Share Option Plan also provides for the granting of options to purchase an additional 2,741,770 Common Shares.

The following table sets forth as to certain executive officers and as to all executive officers as a group, for the various stock option plans of the Company and its subsidiaries: (i) the number of shares covered by options granted during the period October 1, 1984, through September 30, 1985; and (ii) the number of shares acquired during such period through the exercise of options granted during or prior to such period.

	A. E. Downing	H. C. Hatch, Jr.	R. F. Haskayne	A. R. McCallum	R. W. Martin(2)	All executive officers as a group
Options Granted Oct. 1/84 to Sept. 30/85						
Number of Common Shares(1)	3,600	3,000	3,000	3,000	—	18,600
Options Exercised Oct. 1/84 to Sept. 30/85						
Number of Common Shares	—	—	—	—	—	—
Average Exercise Price	—	—	—	—	—	—
Net Value (market value less option price)	—	—	—	—	—	—

(1) These options were granted on February 13, 1985 and expire on February 13, 1995 unless employment is earlier terminated and are exercisable at an exercise price of $27⅞.

(2) Mr. Martin participates in the Consumers' Share Option Plan, under which he was granted 3,000 options to purchase Consumers' common shares at an exercise price of $22⅛, on February 11, 1985. These options expire on February 11, 1995 unless enployment is earlier terminated.

Incentive Plans

The Company and certain of its subsidiaries each maintain incentive plans for executive officers and key employees designated by the appropriate management resource and compensation committees. Payments pursuant to the plans are fully discretionary and based upon the results of operations or the achieving of certain financial objectives.

During the past fiscal year, the Company and its subsidiaries accrued for or made payments under these plans as follows: $108,970 to Mr. Downing, $83,500 to Mr. Hatch, Jr., $49,500 to Mr. Haskayne, $60,254 to Mr. McCallum, $50,000 to Mr. Martin, $82,817 to all other executive officers as a group.

Stock Purchase and Savings Plans

The Company and certain of its subsidiaries each maintain Stock Purchase and Savings Plans (the "Plans") covering a majority of the Company's and its subsidiaries' employees. Participation in the Plans by an employee is entirely voluntary and each participating employee is permitted to make a contribution to the Plan of up to 20 percent of his or her monthly compensation, depending on the particular Plan. The employer of a participating employee also makes monthly contributions

to the Plan on behalf of the participating employee equal to a certain percentage of the first five percent of the employee's monthly compensation contributed to the Plan. The percentage is determined by the Company in its sole discretion, but does not exceed 100 percent of the participating employee's contribution. Employee contributions are invested in an income fund, the Company's Common Shares, or a combination thereof as designated by the employee. The employer of a Canadian employee, may elect to allow employee contributions to be directed to a retirement savings plan of the Stock Purchase and Savings Plan. Employer contributions are invested in the Company's Common Shares and are subject to certain vesting provisions.

Consumers' has a similar Stock Purchase and Savings Plan which is offered to its supervisory employees and which is based on the common shares of Consumers'.

Pension Plans

The Company's subsidiaries maintain a variety of pension plans in Canada, the United States and other countries. These plans, most of which are trusteed plans, cover a majority of the Company's and its subsidiaries' employees. Most are funded by Company or subsidiary contributions and in some cases employee contributions and provide pension benefits at normal retirement age. The amount of pension benefits payable under these plans to a particular employee, including an executive officer, is dependent on many factors including among others, years of credited service, average annual earnings and the particular plan or plans from which payments are to be made. As of September 30, 1985, the following officers had approximately the listed number of years of credited service towards their pension plan: Mr. Downing, 36 years; Mr. Haskayne, 4 years; Mr. Hatch, Jr., 15 years; Mr. McCallum, 20 years and Mr. Martin, 24 years.

The following table provides the minimum and maximum levels of annual pensions provided under the various pension plans sponsored by the Company's subsidiaries and includes amounts (which offset plan payments) provided by Canada Pension Plan and/or certain other social security benefit programmes. Pension plan payments are based on specified years of service and the average annual earnings of either the highest five years or the highest three years depending on the particular plan. Cash compensation figures reported under the Executive Compensation table on page 13, include incentive plan payments which are not considered when arriving at annual average earnings.

	Pensionable Service		
Annual Average Salary	**15 Years**	**25 Years**	**35 Years**
$100,000	$25,725 - 50,000	$42,875 - 63,333	$60,000 - 70,000
$200,000	25,725 - 100,000	42,875 - 126,666	60,000 - 140,000
$300,000	25,725 - 150,000	42,875 - 189,999	60,000 - 210,000
$400,000	25,725 - 200,000	42,875 - 253,333	60,000 - 280,000
$500,000	25,725 - 250,000	42,875 - 316,666	60,000 - 350,000
$600,000	25,725 - 300,000	42,875 - 379,999	60,000 - 420,000

Other Compensation

The aggregate taxable benefit conferred on executive officers for the year ended September 30, 1985 and which is not included in cash compensation, was $116,255. Included in this amount are the taxable benefits of life insurance, leased automobiles and loans if any, provided by the Company.

Transactions with Directors, Officers and Associates

John T. Sapienza is a partner of the law firm Covington & Burling, which was engaged by the Company and its subsidiaries during the last fiscal year.

Indebtedness of Directors and Senior Officers

Richard F. Haskayne, a resident of Calgary, Alberta, was indebted to the Company on account of a non-interest bearing loan for the purchase of Common Shares of the Company on exercise of options in the amount of $344,100 during the year of which $317,850 was outstanding on November 29, 1985. Archibald R. McCallum, a resident of Toronto, Ontario, was indebted to a subsidiary of the Company on a non-interest bearing housing loan for $134,000 during the year of which $109,000 was outstanding on November 29, 1985. William P. Wilder, a resident of Toronto, Ontario, was indebted to the Company on account of a non-interest bearing loan for the purchase of Common Shares of the Company on exercise of options for $606,400 during the year; this loan was repaid in full during the year. At the time such loans were given, applicable market interest rates ranged from approximately 10 percent to 16 percent. These loans may involve a taxable benefit to the recipients.

Directors and Officers Insurance and Indemnification

The Company has purchased insurance for the benefit of the Company's and its subsidiaries' directors and officers against any liability incurred by them in their capacity as directors and officers, subject to certain limitations contained in the Business Corporations Act (Ontario). The annual premium paid by the Company for the year ended September 30, 1985 amounted to $75,275. The policy provides coverage for each director and officer of $60 million, subject to a maximum total liability of $60 million in any policy year. Each claim is subject to a $5,000 deductible for each director or officer in respect of each loss and to a $20,000 deductible in the aggregate for all directors and officers in respect of each loss and to a deductible of $50,000 in respect of any loss by the Company because of indemnification requirements. The by-laws of the Company provide for the indemnification of directors and officers from and against any liability and costs in respect of any action or suit against them in respect of the execution of their duties of office, subject to the limitations contained in the Business Corporations Act (Ontario).

1987 Annual Meeting of Shareholders

Shareholder proposals must be received by December 6, 1986, to be considered for inclusion in the Management Information Circular and Proxy Statement and form of proxy for the 1987 Annual Meeting of Shareholders, which is expected to be held in February, 1987.

Directors' Approval

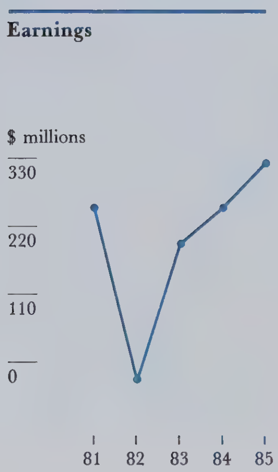
The contents of this Circular and the sending hereof to shareholders of the Company have been approved by the Board of Directors of the Company.

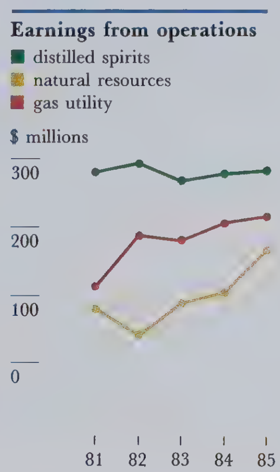
Dated this 20th day of December, 1985.

E. W. H. TREMAIN
Vice President and Secretary

Highlights of 1985 financial and operating results –

- *record earnings of $319 million*
- *higher earnings from operations in all major businesses*
- *return on equity 16.8 per cent*
- *six per cent dividend increase*
- *key distilled spirits brands maintain or improve market share*
- *additions to oil and gas reserves exceed production*
- *number of gas utility customers at all-time high*





Contents

Senior executives of Hiram Walker Resources Ltd.: from left, A. E. Downing, Chairman, President and Chief Executive Officer; R. W. Martin, Executive Vice President; R. F. Haskayne, Executive Vice President; A. R. McCallum, Senior Vice President and Chief Financial Officer; H. C. Hatch, Jr., Executive Vice President.

Record financial and operating results were achieved in 1985. Earnings increased 30 per cent to $319 million, or $3.34 per share, compared with the $245 million, or $2.51 per share, attained the previous year. Higher earnings from operations in each of the three principal businesses, particularly natural resources, led the improvement. In addition, lower finance charges and the benefit of tax losses incurred previously in the United States natural resource sector were contributing factors.

Cash from operations generated by the businesses in 1985 increased by 21 per cent to $626 million, more than sufficient to fund a record capital expenditure program and provide for increased dividend payments to shareholders.

Outlook

Hiram Walker Resources is a financially strong and diversified company, with balance provided by the stability of the distilled spirits and the gas utility segments, and the growth potential of the energy segment. Each of the three main businesses is expected to be a leading performer in its industry.

Hiram Walker-Gooderham & Worts Limited is one of the world's largest and most profitable companies in the distilled spirits business. It is expected it will maintain its relative industry strength and high rate of return by continuing to develop its portfolio of premium, international brands, augmented by selective acquisitions and new product introductions.

Home Oil Company Limited has built a major presence in the oil and gas industry in Canada with additional investments in the United States, the North Sea, Indonesia and Australia. Its exploration program is balanced by near term prospects in western Canada, growing international exposure and the long term potential of the Canadian frontiers. Home Oil's profitability has grown significantly in recent years and is expected to continue to do so as a result of operating efficiencies and the improved fiscal regime in Canada. Although the future price of oil is subject to uncertainty, energy investments continue to be viewed positively as even a modest increase in the price of oil would enhance shareholder value substantially.

The Consumers' Gas Company Ltd., is a large and efficient gas distribution utility. Good customer relations, fair regulatory treatment, an expanding customer base and acceptance of gas as a safe and economical energy choice create positive ingredients for steady growth.

It is unlikely, however, that the Company's 1986 earnings will increase at the same rate as in 1985. The distilled spirits industry will be adversely affected, to some degree, by the increase in the United States federal excise tax which was implemented on October 1, 1985. In addition, the benefit of past tax losses incurred in the United States portion of the natural resources business will be less in 1986 than in 1985.

Beyond 1986, the diversified businesses comprising Hiram Walker Resources should earn a superior return for shareholders.

Dividend

On November 20, the Board of Directors increased the quarterly dividend from 35 cents to 37 cents per Common Share payable on January 1, 1986, to shareholders of record on December 5. The increase follows a similar six per cent increase a year ago.

Corporate

Richard E. Cross and Noah Torno, having reached the retirement age for Directors, will not stand for re-election to the Board. Mr. Cross has been a member of the Board since 1959 and Mr. Torno since 1963. The Board is deeply appreciative of the counsel and direction given to the Company by these two gentlemen during the many years they have represented the shareholders.

Submitted on behalf of the Board of Directors:

A.E. Downing
Chairman
November 20, 1985

With assets of $5.7 billion and revenue of $3.8 billion, Hiram Walker Resources Ltd. is a large, financially strong company with diversified international interests. The three principal operating companies comprising the Company are pioneers in their businesses and each enjoys a significant presence in its industry. The historical roots of Hiram Walker-Gooderham & Worts Limited, a distilled spirits company, and The Consumer's Gas Company Ltd., a gas utility, pre-date the 1867 Confederation of Canada. Home Oil Company Limited, an oil and gas producer, was incorporated in 1925. The name Hiram Walker Resources was selected after the 1980 merger of the companies. The Company is also the largest shareholder of Interprovincial Pipe Line Limited, a major oil pipeline operator which is publicly owned. The Company has a total of 102 million voting shares outstanding, held by 51,984 shareholders. Hiram Walker Resources employs 10,700 people; executive offices are located in Toronto, Ontario.

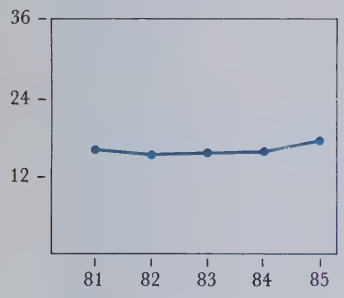
Corporate Objective

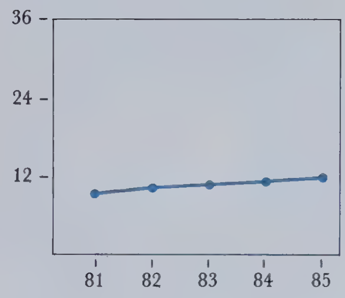
The primary objective of Hiram Walker Resources is to build upon the leading position enjoyed by each of its businesses and to direct surplus financial resources to oil and gas development. This objective is pursued within four guidelines:

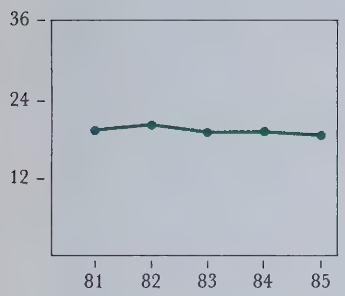
- *maintain a balance between the stable and secure lines of business, distilled spirits and gas utility, and the growth business, energy*
- *achieve a steadily growing stream of quality earnings over the long term*
- *provide shareholders with high cash returns in the form of dividends*
- *and finally, capitalize upon the financial strength of Hiram Walker Resources.*

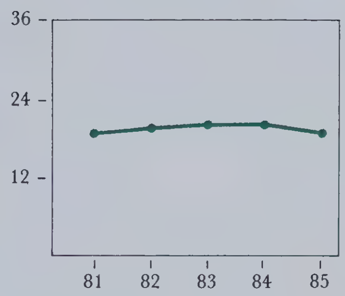
Earnings from operations
as a percentage of revenue

Earnings from operations
as a percentage of assets

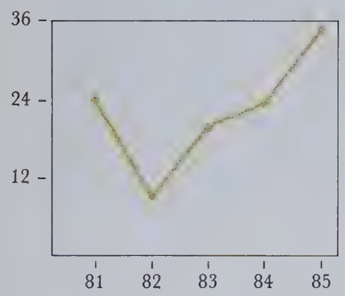


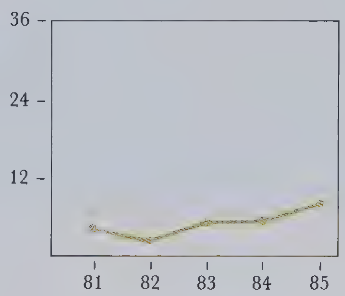




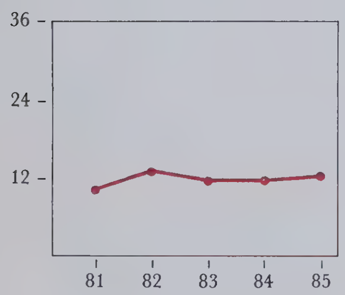


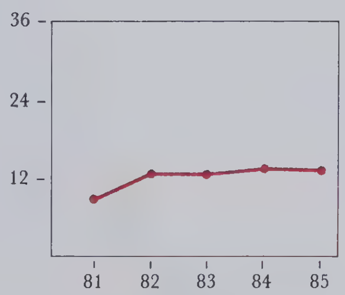
The distilled spirits segment, accounting for 29 per cent of assets, is one of the world's largest and most profitable distilled spirits businesses. Earnings from operations have remained relatively steady, but constitute the greatest portion of the Company's earnings from operations. Returns on revenue and assets are superior.





The natural resources segment, accounting for 40 per cent, the largest portion of assets, has built a substantial presence in Canada with additional investments elsewhere. Earnings from operations have more than doubled over the past five years. Though current returns are low, there is significant longer term potential.





The natural gas utility, accounting for 31 per cent of assets, operates a large and efficient natural gas utility in economically strong areas of central Canada. Earnings from operations have grown steadily over the past five years, producing consistent returns on a growing asset base.

A range of new products
introduced by the Company.

The Company's distilled spirits business performed well in 1985. The total number of cases shipped rose modestly, key brands maintained or increased their market share and the higher revenue generated improved earnings from operations.

Industry Environment

This performance was noteworthy given the maturity of the distilled spirits industry and the continuation of difficult economic conditions in most markets. The maturity of the industry, particularly in North America and many European countries, is evidenced by little or no overall growth in all but a few product categories. Increased competition is reflected by greater advertising and sales promotion expenditures as participants seek to maintain market share. A trend to consolidation at all levels is leaving only large and financially strong producers, distributors and retailers. In addition, consumers increasingly favour the select number of brands which have attained international acceptance.

In response to this competitive environment, the Company has implemented strategies to build upon its strengths and maintain its leading position. Considerable attention is devoted to ensure principal markets are served with efficient, modern low-cost manufacturing and distribution facilities. In addition, though a broad and diverse portfolio of brands is offered to the consumer, the primary focus continues to be on a limited number of high-image, high-margin brands.

A sample of the advertising for Ballantine's Scotch appearing in international markets. First introduced in 1972, it is one of the longest running Scotch campaigns.

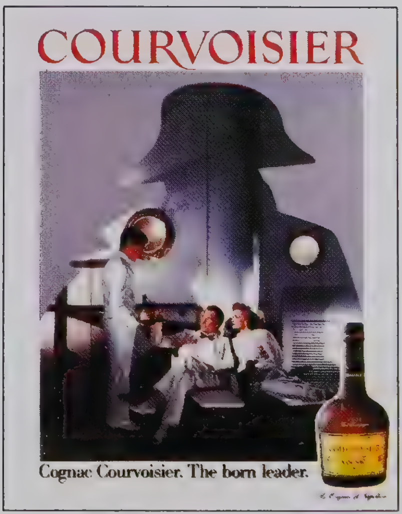
Key Brands

In 1985, five key brands and the line of United States liqueurs accounted for approximately 75 per cent of earnings from operations.

- Canadian Club, the Company's long established flagship brand, with primary markets in the United States, Canada, the United Kingdom and Japan, improved sales marginally after several years of decline.
- Ballantine's Scotch, the Company's largest selling brand, with its major strength lying in western Europe and Japan, increased sales by five per cent. Performances in France, Holland and Greece were particularly strong.
- Courvoisier, one of the market leaders in cognac on a worldwide basis, maintained its competitive position, assisted by newly-designed packaging and the introduction of additional premium qualities.
- Kahlua, one of the world's largest selling liqueurs, continued to improve sales in all major markets, including the United States where it is the leading imported liqueur.
- Tia Maria, an internationally-recognized premium liqueur, performed well.

A Kahlua epicurean advertisement used in the United States market.

The Courvoisier "Born Leader" advertising campaign appearing in international markets.



- Hiram Walker liqueurs increased sales and maintained their position as the largest selling line in the United States. In order to respond to growing demand for Schnapps in the liqueur category, five new flavors were introduced during the year.

While developing these key brands, the Company continues to pursue selective acquisitions in those segments of the industry where representation is not strong and to introduce a limited number of new products which have above-average prospects for success and profitability.

During the year, the distribution of Häagen Dazs Cream Liqueur was expanded nationally in the United States. The introduction of Häagen Dazs in 1984 provided an entry in

the profitable cream liqueur category, an attractive and relatively new segment of the United States beverage alcohol market. Two other products introduced in 1984, Canadian Club Classic and Balblair, performed well during 1985. Canadian Club Classic is a 12-year-old barrel blended Canadian whisky which is being sold initially in Canada and the United States. Balblair, a single malt Scotch, is sold in Italy, an important market for this type of whisky.

New Canadian Club contemporary advertising appearing in North American markets.

Taxation

On October 1, 1985, the federal excise tax in the United States increased by 19 per cent, raising the amount of federal and state taxes levied on a typical bottle of distilled spirits to approximately 48 per cent of the retail price. It is expected the tax will have an unfavourable impact on consumption, at least in the short term.

In Canada, the industry welcomed the federal government's decision to abandon the indexation of its excise duty to the cost of living, a system which triggered automatic tax increases without regard to the economic health of the industry. Nevertheless, the September 1, 1984, and May 24, 1985 increases in the excise duty still totalled seven per cent. Federal and provincial taxes amount to approximately 83 per cent of the retail price of a typical bottle of spirits.

The Company and its trade associations continue to oppose the high levels of taxation imposed on the industry. In addition, a more equitable balance is sought in the taxation of different types of beverage alcohol. In Canada, for example, alcohol in distilled spirits is taxed at the federal level at rates almost three times higher than it is in beer or wine.

A West German version of Tia Maria advertising.

An example of Drambuie advertising appearing in the Canadian market.

Oil and liquids production in 1985 increased to 32,800 barrels per day.

In 1985, the Company produced greater volumes of oil and gas, increased proved reserves and participated in the drilling of a record 728 wells. Total production of crude oil and natural gas liquids, before royalties, averaged 32,800 barrels per day, up modestly from the previous year due to drilling in the United States and higher production in Indonesia. Natural gas sales rose to 163 million cubic feet per day from 153 million cubic feet per day in 1984. Increased domestic and export sales from Canadian fields were partially offset by reduced sales from properties in the United States. Crude oil and liquids reserves increased to 119 million barrels from 116 million barrels in 1984, while reserves of natural gas rose to 1,121 billion cubic feet from 1,106 billion cubic feet in 1984.

Canada

During the year, new oil and gas policies were agreed upon by the federal government and the governments of the principal producing provinces. The most important changes, and their impact upon the Company, are as follows:

- Oil prices and markets were deregulated effective June 1. The Company will benefit as its oil production will receive a higher average price.
- The Petroleum and Gas Revenue Tax will be phased out over the next three years. Since its imposition in 1981, the tax has cost the Company a total of $160 million, including $39 million in 1985.
- Natural gas prices and markets are to be deregulated over a one year transition period starting November 1, 1985. The benefit to the Company will be determined largely by the extent to which possible increased export sales will offset anticipated lower prices.
- The Petroleum Incentives Program (''PIP'') grants will be terminated in 1986 and replaced by a refundable 25 per cent exploration tax credit for high cost wells. Since the introduction of PIP grants in 1981, the Company has received $389 million, including $111 million in 1985. Though PIP grants will end next year, grandfathering provisions will permit the Company to complete its commitments under existing frontier exploration agreements.

Capital spending in Canada, after PIP grants, totalled $201 million in 1985, up from the $165 million spent in 1984. Of the 625 working interest wells participated in, 253 were exploratory and 372 development. Exploratory drilling resulted in 84 (19 net) oil and 55 (9 net) gas wells. Development drilling yielded 246 (44 net) oil and 48 (11 net) gas wells.

This drilling activity was concentrated in the western provinces on both the Company's 5.3 million acres of undeveloped land and on the 20 million acres in which an interest can be earned as a result of the 1983 farmin agreement with Dome Petroleum Limited.

During 1985, the Company participated in the drilling of a record 728 wells.

Major oil discoveries, which added significantly to proved reserves, were made in the Red Earth, Rainbow and Cherhill areas of Alberta, and the Weyburn area of Saskatchewan. Significant oil and gas successes were recorded at Garrington, Chain and Seal in Alberta, Osprey in British Columbia, and Antler in Saskatchewan.

Field and pipeline facilities were constructed to bring natural gas to market from the Moose Mountain area about 30 miles southwest of Calgary. The Company's share of sales, which commenced in late 1985, will average six million cubic feet per day during 1986 and 1987.

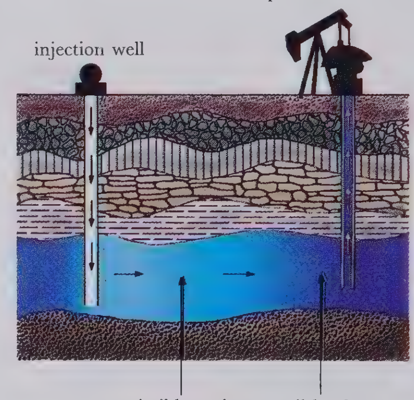
The Company is also participating in two tertiary recovery projects in Alberta to recover additional oil from mature reservoirs. The reservoirs are flooded with miscible hydrocarbons, a process which displaces otherwise unrecoverable oil. At the Swan Hills Unit No. 1 project, injection was started to recover an additional 57 million barrels of oil over the life of the 30-year project. A 17 per cent interest is held. The first stage of a 25-year miscible flood project began operating in Mitsue Unit No. 1. This project is expected to recover an additional 25 million barrels and a second stage, which should recover a further 22 million barrels, will start in mid-1986. A seven per cent interest is held.

Federated Pipe Lines Ltd., 50 per cent owned, modified facilities to move up to 70,000 barrels per day of displacement fluids from underground storage caverns at Fort Saskatchewan, near Edmonton, to several miscible flood projects in the Swan Hills area.

The wholly-owned Manyberries pipeline, which is designed to transport 20,000 barrels per day of heavy and light oil, commenced operation in southern Alberta.

Up to 10 wells will be drilled during the upcoming winter to delineate a 1985 discovery on the Tuktoyaktuk Peninsula by the Beaufort Sea. The well flowed oil at the cumulative rate of about 2,000 barrels per day. A delineation well awaits testing. Interests in the Tuktoyaktuk area vary from 10 to 11 per cent.

Offshore in the Beaufort Sea, the Nipterk discovery well, in which an 11 per cent interest is held, tested oil in five zones at a cumulative rate of about 8,000 barrels per day. A delineation well also tested oil in five new zones at a combined rate of 12,200 barrels per day. Another offshore well, Adlartok, in which a 16 per cent interest is held, flowed oil from four zones at a combined rate in excess of 4,000 barrels per day.



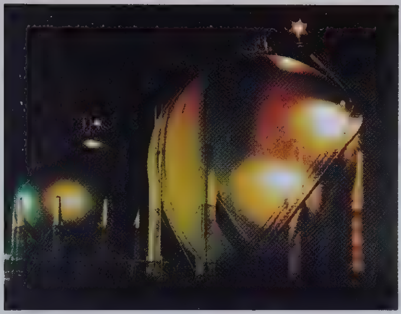
Additional oil from mature fields is recovered by injecting miscible hydrocarbons into the reservoir.

United States

The United States sector contributed to earnings from operations in 1985 following losses in the three previous years. The turnaround was accomplished by the continued consolidation of operations and a lower risk exploratory and development drilling program. Capital expenditures in 1985 reached $71 million, substantially more than the $31 million in 1984.

A selective asset acquisition and divestiture program was continued in order to achieve improved operating efficiencies and drilling results. Additional interests were purchased in 152 producing wells located on lands where substantial interests are already held and where additional drilling prospects exist. Small interests were sold in 68 wells on a number of marginal properties.

Important oil discoveries were recorded in Johnson, Campbell and



Natural gas sales in 1985 increased to 163 million cubic feet per day.

Converse counties of Wyoming. Agreement was reached to participate in a joint venture exploration program whereby the Company will contribute 33 per cent of a $31 million program to drill up to eight wells in the Gulf of Mexico.

International

International activities were expanded with the acquisition of additional exploratory interests in Australia and Indonesia. Capital expenditures totalled $12 million during 1985 compared with $11 million in 1984.

In the Canning Basin of Western Australia, where interests of 26 to 28 per cent are held, additional drilling was undertaken in the Blina and Sundown fields. In another area of the permit, a discovery at West Terrace was placed on production at 250 barrels per day. In the Eromanga Basin of Queensland, the Tintaburra oil field was placed on stream at an initial rate of 400 barrels per day. Production is expected to reach about 1,000 barrels per day following the installation of permanent production facilities in 1986. A 10 per cent interest is held. A 20 per cent interest was acquired in a further 1.5 million acre permit in the Eromanga Basin. In addition, a 20 per cent interest is being earned in a 494,000 acre permit in the Otway Basin of South Australia.

On the Malacca Strait Block in Indonesia, an offshore discovery well tested oil at more than 12,000 barrels per day. Additional drilling is underway to determine the extent of the reserves. Average production from the Lalang oil field increased to 31,000 barrels per day, and development plans were filed for the smaller Mengkapan and Melibur oil fields. A two per cent interest is held in this three million acre block. Additional exploratory interests were acquired in other regions of Indonesia. A 10 per cent interest was acquired, and a further 10 per cent interest is being earned, in the 1.4 million acre Barito "B" Block, situated onshore in southern Kalimantan. A 26 per cent interest is being earned in the 1.5 million acre Asahan Block, lying offshore northern Sumatra. During 1986, two exploratory wells will be drilled on the Barito "B" Block and three wells on the Asahan Block.

A 23 per cent interest is held in Sovereign Oil & Gas PLC, a British company with North Sea holdings. In 1985, Sovereign produced 7,570 barrels per day of crude oil and natural gas liquids from three fields. Development of the North Brae condensate and natural gas field is underway; initial production is expected in 1988. In 1985, Sovereign participated in the drilling of 17 wells, of which 11 discovered either oil or natural gas and condensate. The most significant success was an appraisal well in the East Brae field which tested liquid hydrocarbons and natural gas from three intervals at a cumulative flow rate of 12,800 barrels per day and 51.5 million cubic feet per day. East Brae is now a prime candidate for development after the North Brae field. During the Ninth Round of Licensing by the British government, Sovereign acquired interests in seven additional offshore blocks, where an aggressive exploratory drilling program is now underway.

In Canada, drilling activity was concentrated in the western provinces.

The total number of customers served at year end increased to a record 842,000.

The significant price advantage that natural gas enjoys over competitive fuels, coupled with its abundant supply and clean-burning qualities, continued to attract substantial numbers of new users in 1985.

The total number of customers served at year end increased by six per cent to a record 842,000. The residential sector attracted the majority of additions: customers converting to gas from other fuels accounted for 27,400 additions while new housing starts contributed 20,000. The increase in conversions partially reflected the large number of customers taking advantage of the federal government's Canada Oil Substitution Program before its termination on March 31, 1985. This program, implemented in 1980, provided grants to homeowners who converted from oil to gas or other fuels.

The volume of gas sold in 1985 declined marginally to 322 billion cubic feet, reflecting continued customer conservation and the weather which was nine per cent warmer than last year. By market sector, sales to both residential and commercial customers declined fractionally but increased slightly to industrial users.

Pricing

The Company's wholesale cost of gas declined slightly in 1985. Substantially all gas requirements are purchased from TransCanada PipeLines Limited which, in turn, obtains its supplies from reserves in western Canada, principally Alberta. On October 31, 1985, the federal government and the principal producing provinces announced a plan to move from a government-administered pricing system to a new market-responsive regime for natural gas sold in interprovincial trade. The new plan, which became effective November 1, 1985, provides for a transition period of one year during which time the wholesale price of gas is frozen. During this transitional year, natural gas customers whose contracts expire are permitted to negotiate new contracts directly with producers at market prices. The full impact of the new system on the Company is currently being studied.

Red shows franchised areas. Triangle locates proposed $100 million liquefied natural gas storage plant.

Regulation

In response to an application to increase 1986 revenues by $19.5 million, the Ontario Energy Board ("OEB"), the utility's principal regulatory agency, awarded a revenue deficiency of $4.2 million. The decision provides for an allowable rate of return on common equity of 15 per cent compared with the previously approved 15.3 per cent.

The OEB also determined that revenues from exploration and development activity, contract drilling, as well as merchandising, be removed from regulation.

OEB approval is being sought to build a $100 million liquefied natural gas storage plant in Haldimand Township, about 80 miles east of Toronto. The plant, to be operational for the 1988-89 winter, would provide an economical means to satisfy growing peak winter requirements.

During the year, the Company announced its entry to the energy management field through the acquisition of a half-interest in the Rose Technology Group of Toronto, consulting engineers specializing in the efficient use of energy.

Interprovincial began construction in 1985 on a program to expand capacity.

In 1985, the Company earned $33 million from its 34 per cent equity interest in Interprovincial Pipe Line Limited, the operator of the longest crude oil and liquids pipeline system in North America. This interest was acquired as a result of a share exchange with Interprovincial in October of 1983. In the exchange, Interprovincial acquired a 16 per cent equity interest in the Company.

During 1985, Interprovincial started operations of the Norman Wells pipeline. The $360 million, 12-inch diameter line transports oil from the Imperial Oil Limited oilfield at Norman Wells in the Northwest Territories to Zama, Alberta, a distance of 538 miles.

In addition, construction began on a three stage expansion program to increase the capacity of the pipeline system between Edmonton, Alberta and Superior, Wisconsin.

The first stage, which increased the system's capacity by 75,000 barrels per day, was completed and placed in service in September at a cost of $20 million. The second stage, which will add 150,000 barrels per day, is expected to be completed by the fall of 1986 at a cost of $95 million. A proposed third stage to add 95,000 barrels per day is expected to cost $290 million and be completed in mid 1987.

For the twelve months ended September 30, 1985, Interprovincial earned $133 million, compared with $125 million the previous year. Earnings before the inclusion of Interprovincial's share of Hiram Walker Resources earnings were $105 million compared with $100 million for the same twelve month period of 1984.

Interprovincial declared a quarterly dividend of 50 cents per share payable on December 1, 1985. This is an increase of five cents per share over the previous quarterly dividend and follows a similar five cent per share increase in the quarterly payment effective with the September 1, 1984, dividend.

FINANCIAL REVIEW

CONTENTS

INTRODUCTION

This "Financial review" is presented to further the understanding of the source of earnings and financial resources of the Company and the contribution made by each major business segment to overall performance.

The audited consolidated financial statements present the earnings, changes in financial position, and financial position of the Company. An analysis of important elements follows each statement.

Two sections that follow the statements provide more detailed information. The first section is the "Notes to consolidated financial statements". It is referenced within the consolidated financial statements and contains information related to accounting policies and other significant data including finance charges, taxes, earnings per share, property, investments, indebtedness, shareholders' equity, business segments and geographic activity.

The second section, "Segment discussion", provides additional analysis of the revenue, earnings from operations, capital expenditures and operating data of the businesses – distilled spirits, natural resources and gas utility.

A five year financial summary concludes the "Financial review".

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements of the Company were prepared by management in accordance with accounting principles generally accepted in Canada applied on a consistent basis. The significant accounting policies, which management believes are appropriate for the Company, are described in the accompanying "Summary of significant accounting policies". The financial information contained elsewhere in this Annual Report is consistent with that in the financial statements.

Management is responsible for the integrity and objectivity of the financial statements. In the preparation of these statements, estimates are sometimes necessary when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Such estimates are based on careful judgements and have been properly reflected in the financial statements. Management has established systems of internal control which are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee of the Board, comprising directors who are not employees of the Company. The Committee meets with management as well as with the internal and external auditors to satisfy itself that each group is properly discharging its responsibilities and to review the financial statements and the external auditors' report. The Audit Committee reports its findings to the Board for consideration in approving the financial statements for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards and applicable laws and maintains proper standards of conduct for its activities.

A. E. Downing
Chairman

A. R. McCallum
Senior Vice President and
Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of Hiram Walker Resources Ltd.

We have examined the consolidated statement of financial position of Hiram Walker Resources Ltd. as at September 30, 1985 and 1984 and the consolidated statements of earnings, retained earnings and changes in financial position for each of the three years in the period ended September 30, 1985. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above (appearing on pages 20, 22, 24 and 26 to 37) present fairly the financial position of the Company as at September 30, 1985 and 1984 and the results of its operations and the changes in its financial position for each of the three years in the period ended September 30, 1985 in accordance with generally accepted accounting principles in Canada applied on a consistent basis.

Toronto, Canada
November 19, 1985

Price Waterhouse
Chartered Accountants

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's accounting policies, which conform with accounting principles generally accepted in Canada, are summarized below:

Principles of consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiary companies.

Substantially all of the Company's natural resources activities are conducted jointly with others. These financial statements reflect the Company's proportionate interest in such activities. Investments in companies over which the Company exercises significant influence are accounted for using the equity method. Other investments are stated at cost.

Inventories

Inventories are stated at amounts not exceeding manufactured or purchased cost. They include substantial quantities of whiskies and cognac which will remain in storage over a period of years, but are classified as current assets in accordance with the general practice of the distilling industry.

Property, plant and equipment

Property, plant and equipment is stated at cost which includes interest capitalized on costs of acquiring and evaluating individually significant unproved properties and major development projects during the period of exploration and development and on costs incurred during construction of major additions.

The Company follows the full cost method of accounting for oil and gas operations whereby all exploration and development costs are capitalized. Such costs include land acquisition costs, geological and geophysical expenses, lease rentals and related charges applicable to non-producing property, costs of drilling both productive and non-productive wells and direct overhead charges. These costs are accumulated in cost centres established on a country by country basis. Costs accumulated are generally limited to the future net revenues from estimated production of proved reserves at current prices and costs and the estimated fair market value of unproved properties.

Capitalized exploration and development costs are depleted using the unit of production method based upon estimated proved reserves, as determined by Company petroleum engineers. Natural gas reserves and production are converted to equivalent barrels of crude oil based on the relative energy content. Costs of acquiring and evaluating significant unproved properties and costs of major development projects are excluded from computation of depletion until such time as additional reserves are proved, the project is completed or an impairment in value has occurred.

Production equipment used in petroleum operations is depreciated using the unit of production method. Other assets are depreciated on a straight line basis over their estimated service lives.

Gains or losses on major items of property sold or otherwise disposed of are included in earnings. Other gains or losses are included in accumulated depletion or depreciation.

Foreign currency translation

The accounts of foreign subsidiaries are translated into Canadian dollars on the following basis: assets and liabilities are translated into Canadian dollars using exchange rates at the year end dates; translation adjustments are reflected in shareholders' equity; revenue and expense items are translated using the average rates of exchange throughout the year.

Transactions in a currency other than a domestic currency are translated into that domestic currency on the following basis: at the transaction date, each asset, liability, revenue or expense is translated using exchange rates in effect at that date; at the year end dates, monetary assets and liabilities are translated using exchange rates at that date; foreign exchange gains and losses are included in earnings in the current period, except for unrealized gains and losses related to monetary items with a fixed or ascertainable life extending beyond the end of the following fiscal year. These unrealized gains and losses are deferred and subsequently included in earnings over the remaining life of the assets and liabilities.

Pension plans

The Company has various pension plans covering a majority of its employees. The plans, some of which require contributions by participating employees, provide pension benefits at normal retirement age. Unamortized prior years' service costs for these plans are being funded and charged to earnings over periods varying from 5 to 30 years.

CONSOLIDATED STATEMENT OF EARNINGS

	Year ended September 30 1985	1984	1983
	(expressed in millions except per share amounts)		
Revenue	$3,765	$3,676	$3,403
Operating costs and expenses			
Cost of sales	2,361	2,361	2,169
Selling and general	513	493	446
Depletion and depreciation	226	233	250
	3,100	3,087	2,865
Earnings from operations	665	589	538
Other income	2	19	22
Finance charges, net (note 2)	(172)	(196)	(213)
Earnings before undernoted items	495	412	347
Income taxes (note 3)	(213)	(186)	(138)
Equity in earnings of Interprovincial Pipe Line Limited (note 8)	33	30	
Minority interest	(33)	(27)	(23)
Earnings before unusual item	282	229	186
Benefit of prior years' tax losses (note 3)	37	16	
Earnings (note 5)	$ 319	$ 245	$ 186
Earnings per share (note 5)			
Before unusual item			
Basic	$ 2.89	$ 2.32	$ 2.03
Fully diluted	$ 2.66	$ 2.19	$ 2.01
After unusual item			
Basic	$ 3.34	$ 2.51	$ 2.03
Fully diluted	$ 3.00	$ 2.34	$ 2.01

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year ended September 30 1985	1984	1983
	(expressed in millions)		
Balance at beginning of year	$1,176	$1,080	$1,032
Earnings	319	245	186
	1,495	1,325	1,218
Dividends			
Preference shares	55	55	44
Common shares	104	93	93
Other	4	1	1
	163	149	138
Balance at end of year	$1,332	$1,176	$1,080

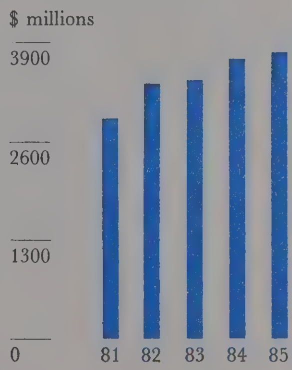
The "Consolidated statement of earnings" summarizes revenue and expenses for each of the last three years.

Earnings of $319 million or $3.34 per share in 1985 were 30 per cent and 33 per cent higher, respectively, than the $245 million or $2.51 per share earned in 1984. The increase in 1984 was 32 per cent and 24 per cent higher, respectively, than the $186 million or $2.03 per share in 1983. The lower percentage increase in 1984 earnings per share was due to the share exchange with Interprovincial.

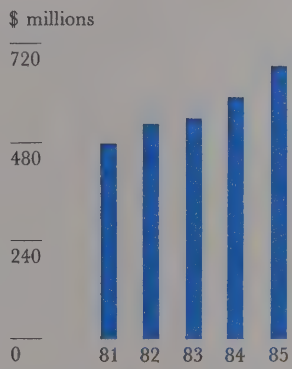
The increase in earnings in both 1985 and 1984 resulted from higher operating earnings in all segments, the reduction in finance charges, net, and the benefit of prior years' tax losses. In addition, in 1984 the Company's share of earnings of Interprovincial also contributed to the increase. The following discussion relates to major elements of the "Consolidated statement of earnings":

- **Revenue** of $3,765 million in 1985 was 11 per cent higher than the $3,403 million generated in 1983. Each segment contributed to the increase.
- **Earnings from operations** increased 24 per cent to $665 million in 1985 from $538 million in 1983. The favourable trend reflected the higher level of earnings, particularly natural resources.
- **Finance charges, net,** declined 19 per cent from $213 million in 1983 to $172 million in 1985. The reduction was attributable in part to lower average borrowing levels through the period and lower average interest rates for short term debt. Foreign exchange gains realized on the retirement of sterling denominated debt also contributed to the decline in 1985.
- **Income taxes** increased from $138 million in 1983 to $213 million in 1985. In 1985, earnings benefitted from a slightly lower effective tax rate of 43 per cent compared to 45 per cent in 1984. This decline was primarily attributable to increased earnings in foreign subsidiaries with lower tax rates as well as lower rates in foreign jurisdictions. The increase in the 1984 tax rate to 45 per cent from the 40 per cent rate of 1983 resulted from higher rates in foreign jurisdictions, a decrease in tax-deductible items as a percentage of income in the gas utility, as well as a decline in the type of income attracting lower rates of tax.
- **The benefit of prior years' tax losses** of $37 million, compared with $16 million in 1984, reflected the utilization of the prior tax losses incurred in the United States natural resource operations. The benefit of the balance of these losses, approximately $21 million, is expected to be recognized in 1986.
- **The outlook** for the Company is incorporated in the "Report to shareholders" on page 3.

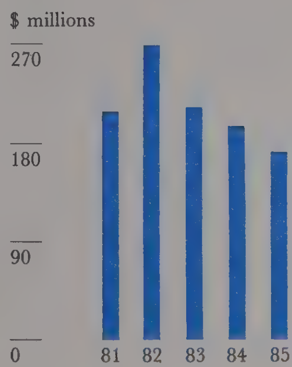
Revenue



Earnings from operations



Finance charges, net



CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended September 30 1985	1984 (1)	1983 (1)
	(expressed in millions)		
Cash was obtained from			
Operations			
Earnings before unusual item	$ 282	$ 229	$ 186
Charges (credits) not affecting cash			
Depletion and depreciation	226	233	250
Deferred income taxes	83	84	43
Minority interest	33	27	23
Other	(17)	(12)	(15)
Changes in other working capital (note 14)	19	(43)	177
	626	518	664
Cash was used for			
Dividends			
By the Company	159	148	137
By subsidiaries to minority shareholders	19	17	14
	178	165	151
Cash remaining for investment	448	353	513
Investment			
Property, plant and equipment	428	325	263
Investment in Sovereign Oil & Gas PLC	7	40	
Increase (decrease) in cumulative translation adjustments	(47)	9	58
Other items, net	24	3	23
	412	377	344
Cash (deficiency) before financing	36	(24)	169
Financing			
Issue in 1984 of preference shares on investment in Interprovincial Pipe Line Limited (note 11)			
Issue of common and other preference shares, net	49	38	19
Issue of common and preference shares by subsidiary companies, net	14	14	58
Issue of long term debt	238	182	292
Retirement of long term debt	(250)	(368)	(368)
Investments applied to (acquired for) debt repayment (notes 8 and 9)	119	68	(185)
	170	(66)	(184)
Increase (decrease) in cash	206	(90)	(15)
Cash position at beginning of year	(311)	(221)	(206)
Cash position at end of year	$ (105)	$ (311)	$ (221)

	1985	1984 (1)	1983 (1)
Cash is represented by:			
Cash and short term investments	$ 361	$ 197	$ 143
Loans and notes payable	(294)	(471)	(339)
Current portion of long term debt	(172)	(37)	(25)
	$ (105)	$ (311)	$ (221)

(1) Restated to reflect the revised definition of cash.

The "Consolidated statement of changes in financial position" shows the principal sources and uses of cash. This statement links the "Consolidated statement of earnings" on page 20 and the "Consolidated statement of financial position" on page 24.

Sources of cash

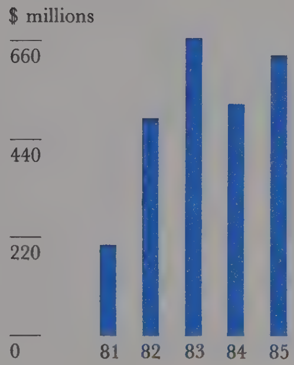
- **Cash from operations** is primarily earnings adjusted for non-cash items, principally depletion and depreciation, which are included in earnings but which did not affect cash during the period being measured. In 1985, the increase in cash from operations was primarily due to the increase in earnings and reduced working capital requirements as a result of the timing of receipt of government grants in the Canadian natural resources segment. The decline of $146 million in cash from operations in 1984 was due primarily to higher working capital requirements, partially offset by increased operating earnings in all segments. These additional requirements resulted from increased activity during 1984, particularly in the natural resources business.
- **Issue of long term debt** includes the $125 million proceeds from the issue of 11½ per cent debentures in early 1985 which were used to fund short term borrowings in the non-utility side of the business. In the utility, two long term debt issues amounting to $100 million were used for working capital and to finance additions to property, plant and equipment.
- **Issue of shares** includes common and preference shares of the Company and its subsidiaries which were issued to existing shareholders under various stock dividend plans and on the exercise of options and warrants. In 1984, 13.6 million preference shares were issued to acquire the investment in Interprovincial.

Uses of cash

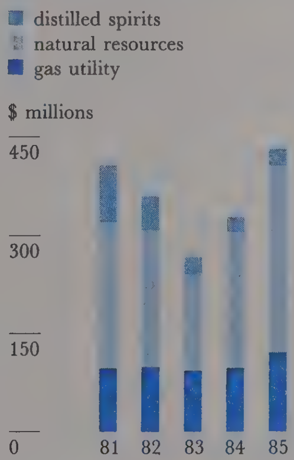
- **Property, plant and equipment** additions amounted to $1 billion over the last three years, 63 per cent of which were invested in natural resources.
- **Dividends** in 1985 were $13 million or eight per cent higher than 1984 and, in turn, were $14 million or nine per cent higher than 1983. The increase was attributable to additional shares outstanding and the six per cent dividend increase effective January of 1985. Dividends per Common Share were $1.40 in 1985 compared to $1.32 in 1984 and 1983.

Cash from operations since the start of 1983 totalled $1.8 billion, $298 million more than total expenditures for property, plant and equipment, and dividend payments. Since the beginning of 1983, borrowings in the non-utility operations have been reduced. During the same period, the asset base increased substantially, higher dividends were paid and earnings increased significantly.

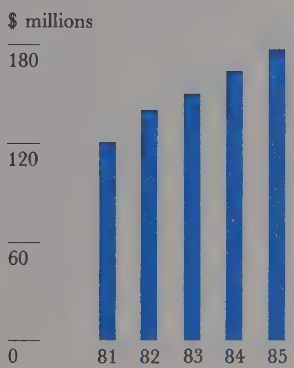
Cash from operations



Capital expenditures



Dividends



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	September 30 1985	1984
	(expressed in millions)	
Assets		
Current assets		
Cash and short term investments	$ 361	$ 197
Accounts receivable	610	583
Inventories (note 6)	1,079	1,052
Other	49	33
	2,099	1,865
Property, plant and equipment (note 7)	3,100	2,854
Investments (note 8)	460	539
Other assets	89	73
	$5,748	$5,331
Liabilities		
Current liabilities		
Loans and notes payable (note 9)	$ 294	$ 471
Accounts payable	513	480
Income and other taxes payable	143	90
Dividends payable	42	39
Current portion of long term debt (note 9)	172	37
	1,164	1,117
Long term debt (note 9)	1,470	1,453
Deferred income taxes (note 3)	455	402
Minority interest	165	130
Other liabilities	43	63
Preference shares of subsidiary companies (note 10)	161	172
Commitments and contingencies (note 15)		
	3,458	3,337
Shareholders' equity		
Capital stock (notes 11 and 12)		
Preference shares	725	739
Common shares	286	223
Cumulative translation adjustments	(53)	(144)
Retained earnings	1,332	1,176
	2,290	1,994
	$5,748	$5,331

Approved by the Board:

A. E. DOWNING, Director

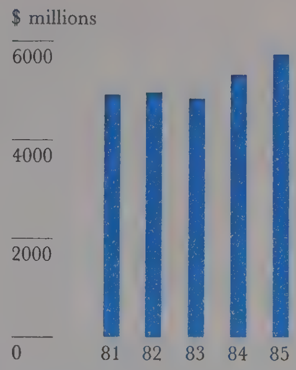
R. S. HURLBUT, Director

The "Consolidated statement of financial position" presents the assets, liabilities, and shareholders' equity at the end of each of the last two years. The elements commented on below are important in assessing the financial strength of the Company and the progress made to enhance asset value and improve the return to shareholders.

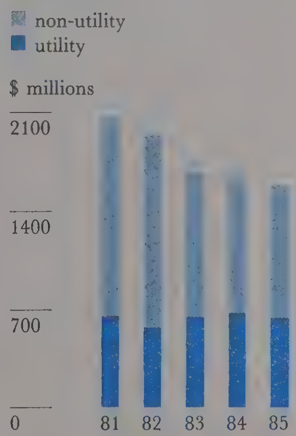
- **Net current assets** remained relatively stable throughout the period despite the higher level of business activity in each segment, reflecting the effective management of working capital.
- **Investments** in 1985 were reduced as marketable securities held to repay certain long term debt obligations, maturing in 1986, were transferred to cash and short term investments. In 1984, investments were made to acquire a 34 per cent interest in Interprovincial, and a 23 per cent interest in Sovereign Oil and Gas.
- **Property, plant and equipment** increased to $3.1 billion in 1985 from $2.9 billion in 1984. Approximately 56 per cent of these assets are invested in natural resources.
- **Net debt,** defined as long term debt, current portion of long term debt, loans and notes payable, less cash and short term investments, declined by $46 million to $941 million in the non-utility operations. The net debt in the utility operations declined by $28 million to $634 million.
- **Shareholders' equity** increased by 15 per cent or $296 million in 1985 as a result of the issue of additional common and preference shares under the Stock Dividend, Dividend Reinvestment and Stock Purchase Plan as well as higher retained earnings.

It is expected that the cash requirements of the Company, primarily dividend payments, will be satisfied largely from dividends received from the operating subsidiaries. The payment of dividends to the Company by one of its principal subsidiaries, Walker-Home Oil Ltd., is subject to certain restrictions described in note 15 (a) of the "Notes to consolidated financial statements". However, in view of present and future expected levels of earnings and cash flow, this limit on the transfer of funds has no implications for the Company's plans.

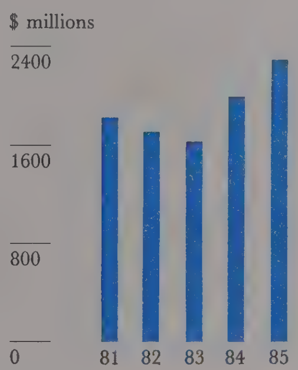
Assets



Net debt



Shareholders' equity



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts expressed in millions except shares and per share amounts)

1. Accounting policies

The "Summary of significant accounting policies" on page 19 forms an integral part of these financial statements.

2. Finance charges, net

	Year ended September 30		
	1985	1984	1983
Interest on long term debt	$198	$222	$229
Other interest	44	33	40
	242	255	269
Foreign exchange gain	(15)	(10)	(24)
Interest income	(55)	(49)	(32)
	$172	$196	$213

3. Income taxes

(a) The geographic components of earnings before income taxes and other items, and current and deferred income taxes, are as follows:

	Year ended September 30		
	1985	1984	1983
Earnings before income taxes and other items			
Canada	$183	$263	$220
United States	199	44	9
Other	113	105	118
	$495	$412	$347
Current income taxes			
Canada	$ 92	$ 67	$ 66
United States	3	6	4
Other	35	29	25
	130	102	95
Deferred income taxes			
Canada	49	60	41
United States	37	16	
Other	(3)	8	2
	83	84	43
Total income tax expense	$213	$186	$138

(b) The provision for income taxes is based on financial statement earnings, except in the regulated gas utility operations. This provision differs from income taxes currently payable because certain items of income and expense are reported in the "Consolidated statement of earnings" in years different from those in which they are reported on income tax returns.

The cumulative effect of these timing differences, referred to in the "Consolidated statement of financial position" as "Deferred income taxes", is primarily based on timing differences between exploration and development expenditures and depletion.

The gas utility does not account for deferred taxes on its regulated operations since rate and revenue structures approved by the regulatory authorities are designed such that deferred taxes are not recovered in current revenues. Accordingly, deferred income taxes referred to above do not include amounts for the utility segment of $13 million in 1985 and $11 million in each of 1984 and 1983 and an accumulated amount of $195 million at September 30, 1985, which are primarily based on timing differences between capital cost allowance and depreciation.

(c) Income tax expense differs from the amount which would be obtained by applying the Canadian statutory federal income tax rate to earnings before income taxes and other items. This difference results from the following:

	Year ended September 30		
	1985	1984	1983
Earnings before income taxes and other items	$495	$412	$347
Federal income tax rate	46%	46%	46%
Computed income tax expense	$228	$189	$159
Add:			
Petroleum and Gas Revenue Tax, royalties and other similar payments to governments not deductible for tax purposes	69	72	65
Non-deductible depletion	7	7	8
Provincial tax in excess of federal abatement	11	9	7
	315	277	239
Deduct:			
Federal resource allowance	41	44	39
Alberta Royalty Tax Credit	4	6	8
Inventory allowance	6	7	14
Items capitalized in gas utility accounts expensed for tax purposes for which no deferred taxes are provided	10	10	9
Difference in effective tax rates of foreign subsidiaries	23	10	20
Depletion allowance and investment tax credits	10	11	7
Other	8	3	4
Actual income tax expense	$213	$186	$138
Actual income tax expense as a percentage of earnings before income taxes and other items	43%	45%	40%

(d) During 1985, income tax benefits of $37 million, which related to prior years' losses of $82 million incurred by certain United States subsidiaries, were recorded in the accounts. At September 30, 1985, losses for financial statement and income tax purposes of $47 million and $157 million, respectively, are available for future recognition. These losses expire during the period 1993 to 1998.

(e) No provision was made for taxes on undistributed earnings of foreign subsidiaries not currently available for paying dividends inasmuch as such earnings were reinvested in the businesses.

4. Pension costs

Pension expense during the three years ended September 30 amounted to $19 million in 1985, $19 million in 1984 and $20 million in 1983. Unfunded prior years' service costs, which have not been charged to operations, amounted to $21 million at September 30, 1985.

5. Earnings per share

Basic earnings per share were calculated using earnings after deduction of preference share dividends on all classes, except those on the Class D, Second Series, which have similar characteristics to Common Shares. The preference share dividends deducted amounted to $43 million for each of the years ended September 30, 1985 and 1984 and $44 million in 1983. The weighted average number of shares outstanding at September 30, 1985, 1984, and 1983 was 82,816,000, 80,239,000 and 70,048,000, respectively, using the aggregate of the weighted average number of Common Shares and Class D Preference Shares, Second Series, outstanding reduced by the pro rata interest in the Company due to Interprovincial Pipe Line Limited's and the Company's reciprocal ownership (note 11).

Fully diluted earnings per share were calculated using the actual number of Common Shares and Class D Preference Shares, Second Series, outstanding, reduced by the pro rata interest and increased by the additional Common Shares that would have been issued if all outstanding convertible preference shares, warrants and employee stock options had been exercised. The number of shares used was 107,939,000, 104,586,000 and 90,012,000 for each of the years ended September 30, 1985, 1984, and 1983, respectively.

6. Inventories

	September 30 1985	1984
Finished goods	$ 136	$ 114
Natural gas in storage	295	317
Maturing whiskies and cognac	562	518
Raw materials and supplies	86	103
	$1,079	$1,052

7. Property, plant and equipment

	1985			September 30 1984		
	Cost	Accumulated depletion and depreciation	Net	Cost	Accumulated depletion and depreciation	Net
Distilled spirits	$ 579	$ 279	$ 300	$ 532	$ 245	$ 287
Natural resources	2,928	1,200	1,728	2,659	1,092	1,567
Gas utility	1,407	335	1,072	1,302	302	1,000
	$4,914	$1,814	$3,100	$4,493	$1,639	$2,854

At September 30, 1985 and 1984, all costs of acquiring and evaluating significant unproved oil and gas properties were included in the computation of depletion as described in the "Summary of significant accounting policies".

The oil and gas depletion and depreciation expenses per barrel of oil equivalent for each of the years ended September 30, 1985, 1984 and 1983 were $4.16, $3.62 and $3.26 in Canada and $13.83, $18.81 and $21.75 in the United States, respectively.

8. Investments

	September 30 1985	1984
Marketable securities - at cost which approximates market[1]		$115
Investments accounted for on the equity method		
Interprovincial Pipe Line Limited[2]	$269	245
Sovereign Oil & Gas PLC	47	40
Others	39	42
Other investments - at cost	105	97
	$460	$539

(1) These securities have been set aside to satisfy the debt service and repayment requirements of certain outstanding debt obligations (see note 9 (d), page 31).

(2) The following condensed financial information of Interprovincial is based upon publicly reported financial data.

Condensed statement of financial position (unaudited)	*September 30 1985*	*1984*
Current assets	*$ 249*	*$ 254*
Pipeline transportation system, net	*1,084*	*939*
Investment in Hiram Walker Resources Ltd.	*330*	*308*
Other assets	*21*	*30*
	$ 1,684	*$ 1,531*
Current liabilities	*$ 89*	*$ 84*
Non-current liabilities	*222*	*198*
Long term debt	*574*	*531*
Shareholders' equity	*799*	*718*
	$ 1,684	*$ 1,531*

Condensed statement of earnings (unaudited)	*Twelve months ended September 30 1985*	*1984*
Income	*$ 520*	*$ 478*
Expenses	*310*	*277*
	210	*201*
Income taxes	*105*	*101*
	105	*100*
Equity in earnings of Hiram Walker Resources Ltd.	*28*	*25*
Earnings	*$ 133*	*$ 125*

The amount of consideration over the net book value of assets acquired of $116 million was attributed to the pipeline systems owned by Interprovincial and is being amortized over the remaining life of these assets which was estimated to be 30 years at the date of acquisition, October 1, 1983.

9. Indebtedness

(a) Loans and notes payable

	September 30 1985	1984
Bank loans	$104	$ 90
Commercial paper	190	381
	$294	$471

(b) Long term debt

	Fiscal year maturity	September 30 1985	1984
Non-utility			
Debentures			
8.5-9.875%	1994-99	$226	$230
9.5% (US$18)	1986	25	24
11.5%	1990	125	
14.25% (L11)	1986	22	20
15.5% (1)	1987	125	125
15.5-16% (1985, US$93; 1984, US$90)	1989	126	119
16% (US$64)	1986	87	83
Bank loans and notes			
11.25-13.0% (1985, L35; 1984, L38)	1987-90	67	62
Revolving credit facility (2)	1988		57
7.25-7.50% (SF175) (3)	1987-88	127	123
14.5% (L10)	1986	19	17
Other		38	39
		987	899
Utility			
First mortgage sinking fund bonds, secured			
8.6-11.5% (4)	1994-96	154	160
4.85-8.0% (1985, US$14; 1984, US$22) (4)	1985-94	19	29
Debentures			
6.625-8.625% sinking fund (4)	1985-92	52	64
9.6-10.45% sinking fund (4)	1998-99	135	139
10.875% sinking fund	2005	50	
13.25%	1993	65	65
17.75% sinking fund (4)	1997	55	59
18.5% (1)	1987	75	75
Revolving credit facility (5)	1987	50	
		655	591
		1,642	1,490
Less amounts due within one year		172	37
		$1,470	$1,453

(1) These issues are extendable until 1991 at the option of the holder.

(2) Pursuant to this facility, proceeds can be drawn in Canadian or United States dollars. The rate of interest under this facility is based upon rates prevailing from time to time in Canada, the United States and/or The London Interbank Offered Rate ("LIBOR"). The average interest rate was 11.7% during 1985.

(3) The notes are hedged as to principal and interest into United States dollars. The hedge contract increased the effective average interest rate to 15.8% during 1985.

(4) The Company is obligated to ensure that all amounts due on the first mortgage sinking fund bonds and $187 million of the sinking fund debentures of a subsidiary are paid to the holders of these securities. The Company's obligation to the holders of the first mortgage sinking fund bonds is secured.

(5) Pursuant to this facility, proceeds can be drawn in Canadian or United States dollars. The rate of interest under this facility is based upon rates prevailing from time to time in Canada, the United States and/or LIBOR. The average interest rate was 9.3% during 1985. At September 30, 1985, the rate was 8.9%.

(c) Long term debt maturities and sinking fund requirements for each of the five years subsequent to September 30, 1985, are as follows: 1986, $172; 1987, $329; 1988, $115; 1989, $155; 1990, $200.

(d) The Company holds interest-bearing investments, comprising deposits with major Canadian and United States banks and highly-rated government and corporate securities, to be used for satisfying the debt service and repayment requirements of certain specific debt obligations. These investments, which were classified as investments at September 30, 1984, are classified as cash and short term investments at September 30, 1985, as the specific debt obligations are due within one year. The debt issues and the related investments held at September 30, 1985, amounted to $109 million (1984, $105 million) and $119 million (1984, $115 million), respectively.

(e) The Company has unused lines of credit at September 30, 1985 and 1984, of $837 million and $947 million, respectively. Of the unused lines available at September 30, 1985 and 1984, commitments, in various currencies, of $138 million and $336 million, respectively, have terms of up to eight years.

10. Preference shares of subsidiary companies

	September 30 1985	1984
Cumulative redeemable preference shares with fixed dividends (1)	$ 11	$ 11
Cumulative redeemable retractable preference shares with fixed dividends (2)	102	102
Cumulative redeemable preference shares with variable dividends (3)	48	59
	$161	$172

(1) Fixed dividend rates are 5% and 5.5% according to Series and are redeemable at any time.

(2) Fixed dividend rates are between 8.5% and 13.5% according to Group and Series; the weighted average rate is approximately 11.3% and redemption can commence in 1988.

(3) Dividends are payable at an annual rate of one-half of the Canadian bank's prime lending rate plus 1%–1.25%. Annual redemption requirements are $13 million in 1986, $14 million to 1988 and $7 million in 1989.

11. Capital stock

(a) Authorized

	September 30 1985	1984
	Shares	
Preference shares (issuable in series)		
Class A	10,000,000	10,000,000
Class B	10,000,000	10,000,000
Class C	19,356,757	19,726,578
Class D	49,612,549	49,984,585
	88,969,306	89,711,163
Common Shares	151,120,932	150,318,734

(b) Outstanding

	September 30 1985 Shares	Amount	1984 Shares	Amount
Preference shares				
Class A(1)	2,000,000	$ 50	2,000,000	$ 50
Class B(2)	4,000,000	100	4,000,000	100
Class C(3)			369,821	7
Class D(4)				
– First Series	13,726,887	343	13,984,732	350
– Second Series (note 11(c))	8,911,923	232	8,911,923	232
	28,638,810	$725	29,266,476	$739
Common Shares	74,881,818	$286	72,180,245	$223

(1) Class A – $3.54 cumulative dividend, retractable at $25.00 per share on September 1, 1989, redeemable at varying premiums reducing from $1.00 commencing October 1, 1986.

(2) Class B – $2.375 cumulative dividend, convertible into Common Shares at $31.50 per share (1 preference share equals 0.79 Common Share) up to September 30, 1988, redeemable at $25.00 per share.

(3) Class C – all outstanding $1.80 cumulative dividend convertible preference shares were redeemed at $20.00 per share on November 2, 1984.

(4) Class D, First Series – $1.875 cumulative dividend, voting, convertible into Common Shares at $28.00 per share (1 preference share equals 0.89 Common Share) up to December 31, 1989, redeemable at varying premiums reducing from $1.875.

Class D, Second Series – voting and participating equally with and receiving the same dividends as the Common Shares.

At September 30, 1985, 1,999,400 Common Share Purchase Warrants (1986) were outstanding. Each warrant entitles the holder to buy one Common Share at $31.50 on or before September 30, 1986.

At September 30, 1985, 5,424,938 Common Share Purchase Warrants (1988) were outstanding. Each warrant entitles the holder to buy one Common Share at $32.50 on or before January 15, 1988.

(c) Changes in capital stock

	Preference Shares		Common Shares	
	Shares	Amount	Shares	Amount
Balance at September 30, 1982	20,453,464	$508	69,494,406	$163
Conversion of preference to common	(52,450)	(1)	65,637	1
Issued under agreements(1)	20,802	1	864,953	19
Changes in Common Shares held by Trustees, at cost (note 12)			35,850	
Balance at September 30, 1983	20,421,816	508	70,460,846	183
Conversion of preference to common	(159,108)	(3)	210,384	3
Issued on investment in Interprovincial	13,600,000	354		
Pro rata interest in shares held by Interprovincial	(4,688,077)	(122)		
Issued under agreements(1)	91,845	2	1,528,554	37
Changes in Common Shares held by Trustees, at cost (note 12)			(19,539)	
Balance at September 30, 1984	29,266,476	739	72,180,245	223
Conversion of preference to common	(724,712)	(16)	802,198	16
Issued under agreements(1)	114,191	3	1,821,742	46
Changes in Common Shares held by Trustees, at cost (note 12)			77,633	1
Redemption of Class C	(17,145)	(1)		
Balance at September 30, 1985	**28,638,810**	**$725**	**74,881,818**	**$286**

(1) Shares issued under agreements include those issued on exercise of stock options, those issued pursuant to the Stock Dividend, Dividend Reinvestment and Stock Purchase Plan, and the employees' Stock Purchase and Savings Plan, and those issued on exercise of warrants; all shares were issued for cash.

12. Employee stock options

	Common Shares	Class D, First Series Preference Shares
Shares under option at October 1, 1984	1,204,700	30,163
Options granted	213,850	
Options exercised	(129,119)	(6,950)
Options cancelled	(27,425)	
Shares under option at September 30, 1985	**1,262,006**	**23,213**

Options for Common Shares and Class D Preference Shares, First Series, are exercisable until 1995 at average prices of approximately $27 and $15 per share, respectively. Under the current option plan for Common Shares, 4,136,850 Common Shares were reserved for issuance to certain employees and at September 30, 1985, 2,741,770 Common Shares remain available to be granted under the plan. Under the Class D, First Series Preference Share plan, the Company issues preference shares or makes cash payments as options are exercised. An older Common Share plan, under which no further options are to be granted, requires that Trustees purchase shares in the open market to satisfy outstanding options.

13. Information by business segment and geographic area

(a) Business segment

	Year ended September 30		
	1985	1984	1983
Revenue			
Distilled spirits	$1,516	$1,448	$1,406
Natural resources	482	451	459
Gas utility	1,767	1,777	1,538
	$3,765	$3,676	$3,403
Earnings from operations			
Distilled spirits	$ 282	$ 278	$ 267
Natural resources	167	105	91
Gas utility	216	206	180
	665	589	538
Other income	2	19	22
Finance charges, net	(172)	(196)	(213)
Income taxes	(213)	(186)	(138)
Equity in earnings of Interprovincial	33	30	
Minority interest	(33)	(27)	(23)
Benefit of prior years' tax losses	37	16	
Earnings	$ 319	$ 245	$ 186
Identifiable assets(1)			
Distilled spirits	$1,511	$1,385	$1,338
Natural resources	2,052	1,912	1,763
Gas utility	1,634	1,533	1,439
Investment in Interprovincial	269	245	
Corporate	282	256	300
	$5,748	$5,331	$4,840
Capital expenditures (2)			
Distilled spirits	$ 24	$ 21	$ 24
Natural resources	284	207	146
Gas utility	120	97	93
	$ 428	$ 325	$ 263
Depletion and depreciation			
Distilled spirits	$ 27	$ 26	$ 26
Natural resources	151	163	183
Gas utility	48	44	41
	$ 226	$ 233	$ 250

(1) Restated to identify corporate assets comprising cash and other investments.

(2) Net of applicable government grants for the three years ended September 30, 1985, 1984 and 1983 of $126 million, $143 million and $82 million, respectively.

(b) Geographic area

	Year ended September 30		
	1985	1984	1983
Revenue			
Canada	$2,358	$2,322	$2,070
United States	1,226	1,173	1,174
Other	379	354	313
Eliminations(1)	(198)	(173)	(154)
	$3,765	$3,676	$3,403
Earnings from operations			
Canada	$ 411	$ 393	$ 359
United States	165	112	93
Other	89	84	86
	$ 665	$ 589	$ 538
Identifiable assets			
Canada	$3,636	$3,401	$2,917
United States	1,150	993	1,121
Other	962	937	802
	$5,748	$5,331	$4,840
Capital expenditures			
Canada(2)	$ 327	$ 267	$ 202
United States	80	38	34
Other	21	20	27
	$ 428	$ 325	$ 263
Depletion and depreciation			
Canada	$ 128	$ 111	$ 104
United States	83	106	135
Other	15	16	11
	$ 226	$ 233	$ 250

(1) Inter-company sales between geographic areas are at approximate market prices.

(2) Net of applicable government grants for the three years ended September 30, 1985, 1984 and 1983 of $126 million, $143 million and $82 million, respectively.

14. Analysis of consolidated changes in other working capital

	Year ended September 30 1985	1984	1983
Income taxes recoverable			$ 59
Accounts receivable	$ (27)	$(118)	59
Inventories	(27)	(3)	72
Accounts payable	33	85	12
Income and other taxes payable	53	(27)	(32)
Other current items, net	(13)	20	7
	$ 19	$ (43)	$177

Other working capital does not include cash which is defined as cash and short term investments, less loans and notes payable and current portion of long term debt.

15. Commitments and contingencies

(a) The indentures and agreements relating to certain long term debt obligations of Walker-Home Oil Ltd., a principal subsidiary of the Company, contain covenants limiting the transfer of funds by Walker-Home Oil Ltd. and its subsidiaries to the Company. Under the most restrictive of these covenants, as at September 30, 1985, such transfers of funds to the Company were limited to future consolidated net income of Walker-Home Oil Ltd. and its subsidiaries plus $549 million. The Company's consolidated net assets at September 30, 1985, include $1,488 million of net assets of consolidated subsidiaries, which were restricted against transfer to the Company.

(b) Due to the size, complexity and international scope of operations, a number of lawsuits are pending at any point in time in which the Company may be the plaintiff or defendant. In the opinion of management, the ultimate resolution of any current lawsuits would not have a material effect on the Company's consolidated financial position or results of operations.

16. Supplementary information

Since the Company uses capital markets and has security holders resident in the United States, supplementary information in conformity with United States reporting practices is included as follows:

United States accounting principles

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada. These principles differ in some respects from those applicable in the United States. The differences are as follows:

(a) Earnings – foreign currency translation

The Company follows the practice of deferring unrealized foreign exchange gains or losses on those long term monetary assets and liabilities with a fixed or ascertainable life and denominated in other than a domestic currency. These gains or losses are subsequently amortized over the remaining life of the related assets and liabilities. Under accounting principles generally accepted in the United States, pursuant to Statement of Financial Accounting Standards No. 52, such exchange gains or losses would be included immediately in the determination of earnings.

If United States generally accepted accounting principles were followed by the Company in respect of deferred foreign exchange gains and losses during 1985, 1984, and 1983, the Canadian earnings would be adjusted as follows:

	Year ended September 30		
	1985	1984	1983
Earnings as reported - Canadian generally accepted accounting principles	$319	$245	$186
Foreign exchange loss, net of tax	(10)		(8)
Earnings - United States generally accepted accounting principles	$309	$245	$178

In addition, reported retained earnings would decrease by $19 million to $1,313 million at September 30, 1985, $9 million to $1,167 million at September 30, 1984 and $9 million to $1,071 million at September 30, 1983.

(b) Earnings per share

The calculation of basic earnings per share under United States generally accepted accounting principles includes the common stock equivalent of the Class D Convertible Voting Preference Shares, First Series; Class B Convertible Preference Shares and certain stock options of the Company granted where the average price for the year exceeds the option price.

The basic and fully diluted earnings per share on a United States basis would be as follows:

	Year ended September 30		
	1985	1984	1983
Basic	$3.04	$2.45	$1.98
Fully diluted	$2.90	$2.34	$1.93

(c) Pension plans

Under United States generally accepted accounting principles, additional information with respect to the Company's United States pension plans would be disclosed as set forth below. The data is based upon reports of independent consulting actuaries, as of the most recent valuation dates, generally January 1 of each year:

	1985	1984
Actuarial present value of accumulated plan benefits of which $116 million (1984, $100 million) is vested	$120	$103
Net assets available for benefits	$191	$182
Assumed weighted average interest rate used in calculating plan benefits	10%	10%

(d) Preference shares

Under United States generally accepted accounting principles, preference shares which are subject to mandatory redemption requirements would be reported under a separate caption ''Redeemable preference shares'' rather than under the general heading ''Shareholders' equity'' in the ''Consolidated statement of financial position''. All the Company's preference shares, except the Class D, Second Series, are subject to mandatory redemption requirements.

Oil and gas exploration and production activities (unaudited)

The following unaudited supplementary oil and gas information is provided in accordance with the United States' Statement of Financial Accounting Standards No. 69, "Disclosures about Oil and Gas Producing Activities".

Oil and gas exploration and production activities are carried out principally in Canada and the United States and to a lesser extent in other areas internationally.

(a) Capitalized costs

		September 30	
	1985	1984	1983
Capitalized costs			
Canada	$1,353	$1,164	$1,007
United States	1,403	1,304	1,213
International	41	71	58
	$2,797	$2,539	$2,278
Capitalized costs, net of depletion and depreciation			
Canada	$1,068	$ 945	$ 847
United States	532	502	532
International	29	25	25
	$1,629	$1,472	$1,404

(b) Costs incurred

		Year ended September 30	
	1985	1984	1983
Acquisition of unproved properties			
Canada	$ 21	$ 17	$ 7
United States	9	4	5
International	2		
	32	21	12
Acquisition of proved properties			
United States	9	7	
Exploration			
Canada	89	81	52
United States	33	21	19
International	9	8	9
	131	110	80
Development			
Canada	80	60	32
United States	20	16	21
International	1	2	2
	101	78	55
Total			
Canada	190	158	91
United States	71	48	45
International	12	10	11
	$273	$216	$147

(c) Results of operations

The following results **do not include** general and administrative overhead, interest, and other operating costs and revenues not directly related to conventional oil and gas exploration and production activities; **consequently, they differ from the reported results of the natural resources segment.**

	Year ended September 30		
	1985	1984	1983
Revenues, net of royalties			
Canada	$330	$311	$273
United States	119	113	135
International	10	5	
	459	429	408
Production costs			
Canada	49	43	41
United States	25	28	32
International	2	1	
	76	72	73
Petroleum and Gas Revenue Tax			
Canada	39	43	36
Depletion and depreciation			
Canada	71	61	50
United States	66	88	121
International	6	8	3
	143	157	174
Earnings (loss) from oil and gas operations before income tax			
Canada	171	164	146
United States	28	(3)	(18)
International	2	(4)	(3)
	201	157	125
Income taxes (recoveries)			
Canada	96	100	79
United States	13	(1)	(8)
International	2	1	(2)
	111	100	69
Results of oil and gas operations			
Canada	75	64	67
United States	15	(2)	(10)
International		(5)	(1)
	$ 90	$ 57	$ 56

(d) Proved oil and gas reserves

Proved reserves are based on estimates made by Company engineers. Proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. The process of estimating reserves is complex, requiring subjective judgements in the evaluation of available geological, engineering, economic, and other data. The Company's proved reserves are located in Canada, United States, Australia and Indonesia.

The calculation of net reserves of crude oil, which includes condensate and natural gas liquids, and of natural gas, is based on the Company's share of proved reserves after the deduction of royalties. Federal and provincial government royalty rates vary depending on price, production volume and the timing of initial production. The net reserves set forth below were calculated on the basis of royalty regulations in effect on the date the estimates were made.

	Canada		United States		International		Total	
Proved reserves	Oil(1)	Gas(2)	Oil(1)	Gas(2)	Oil(1)	Gas(2)	Oil(1)	Gas(2)
September 30, 1982	70,862	676	9,241	103	1,119		81,222	779
Revisions of previous estimates, royalty rates and improved recovery	2,121	37	2,231	27	(297)		4,055	64
Extensions and discoveries	2,763	16	552	6	230		3,545	22
Production	(6,476)	(26)	(1,657)	(18)			(8,133)	(44)
September 30, 1983	69,270	703	10,367	118	1,052		80,689	821
Revisions of previous estimates, royalty rates and improved recovery	8,265	12	284	13	15		8,564	25
Purchase of minerals in place			248	3			248	3
Extensions and discoveries	6,043	47	536	14	185		6,764	61
Production	(6,954)	(30)	(1,422)	(14)	(164)		(8,540)	(44)
Sale of minerals in place			(291)	(9)			(291)	(9)
September 30, 1984	76,624	732	9,722	125	1,088		87,434	857
Revisions of previous estimates, royalty rates and improved recovery	3,983	23	(764)	(5)	(119)		3,100	18
Purchase of minerals in place			463	3			463	3
Extensions and discoveries	9,215	44	1,672	23	97		10,984	67
Production	(7,072)	(33)	(1,586)	(13)	(200)		(8,858)	(46)
Sale of minerals in place			(28)	(1)			(28)	(1)
September 30, 1985	**82,750**	**766**	**9,479**	**132**	**866**		**93,095**	**898**

(1) Thousands of barrels.
(2) Billions of cubic feet.

Proved developed oil and gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.

	Canada		United States		International		Total	
Proved developed reserves	Oil(1)	Gas(2)	Oil(1)	Gas(2)	Oil(1)	Gas(2)	Oil(1)	Gas(2)
September 30, 1982	70,862	676	8,620	94	1,054		80,536	770
September 30, 1983	65,807	649	9,300	107	1,052		76,159	756
September 30, 1984	62,253	685	8,623	109	926		71,802	794
September 30, 1985	76,943	722	8,514	115	866		86,323	837

(1) Thousands of barrels.
(2) Billions of cubic feet.

(e) Standardized measure of discounted future net cash flows and changes therein

Future cash inflows are computed by applying year-end prices, except for fixed and determinable escalation provisions in contracts, to year-end quantities of proved oil and gas reserves. Future development costs, production costs, Petroleum and Gas Revenue Tax ("PGRT"), and income taxes are deducted from future cash inflows to arrive at future net cash flows. Future development and production costs are based on year-end costs and assume continuation of existing economic and operating conditions. Future PGRT is computed based on rates and legislation in effect at year end. Future income taxes are computed by applying the appropriate year-end statutory rates to the future pretax net cash flows, after making provision for the tax basis of the oil and gas properties. Future net cash flows are discounted at a rate of 10 per cent per annum to arrive at discounted future net cash flows.

The Company cautions that the discounted future net cash flows from proved oil and gas reserves is neither an indication of fair market value of the Company's oil and gas properties, nor of the future net cash flows expected to be generated from such properties. The discounted future net cash flows do not include the fair market value of exploratory properties and probable or possible oil and gas reserves, nor give consideration to the effect of anticipated future changes in crude oil and natural gas prices, development and production costs, and possible changes to tax and royalty regulations. The prescribed discount rate of 10 per cent may not appropriately reflect future interest rates. The computation excludes values attributable to the Company's marketing, storage and pipeline activities related to oil and gas production.

The discounted future net cash flows cannot be compared with the net book value of capitalized costs of petroleum and natural gas properties because they are calculated on an after-tax basis and exclude the fair market value of exploratory properties and probable or possible oil and gas reserves.

Standardized measure of discounted future net cash flows

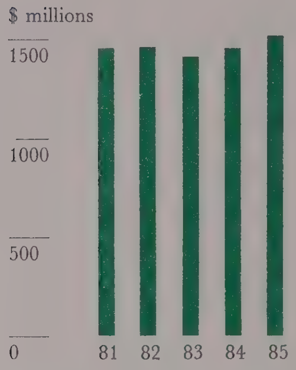
	1985	September 30 1984	1983
Future cash inflows			
Canada	$5,018	$4,683	$4,076
United States	958	980	862
International	34	41	33
	6,010	5,704	4,971
Future production and development costs			
Canada	1,250	1,126	808
United States	272	270	222
International	13	12	12
	1,535	1,408	1,042
Future PGRT - Canada(1)	93	585	572
Future pretax cash flows			
Canada	3,675	2,972	2,696
United States	686	710	640
International	21	29	21
	4,382	3,711	3,357
Future income taxes			
Canada	1,557	1,368	1,441
United States	15		
International	3	3	3
	1,575	1,371	1,444
Future net cash flows			
Canada	2,118	1,604	1,255
United States	671	710	640
International	18	26	18
	2,807	2,340	1,913
10% annual discount for timing of future cash flows			
Canada	1,240	946	747
United States	244	287	243
International	6	6	4
	1,490	1,239	994
Discounted future net cash flows			
Canada	878	658	508
United States	427	423	397
International	12	20	14
	$1,317	$1,101	$ 919

(1) PGRT is being phased-out over the period ending January 1, 1989.

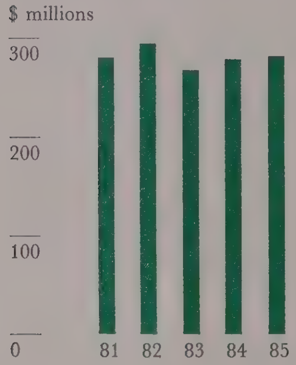
Changes in standardized measure of discounted future net cash flows

	Year ended September 30		
	1985	1984	1983
Revisions to reserves proved in prior years			
Revisions in previous quantity and timing estimates	$ 52	$ (4)	$ 79
Net changes in prices and royalties, net of production costs and PGRT	161	168	(61)
Phase-out of PGRT	170		
Net changes in estimated future development costs, including tertiary recovery costs	(138)	(34)	10
Other	11	24	(7)
Accretion of discount	173	157	158
	429	311	179
Changes during the year			
Extensions, discoveries and improved recovery, net of related costs	238	149	76
Previously estimated development costs incurred during the year	47	31	24
Sale of oil and gas produced, net of production costs and PGRT	(344)	(314)	(299)
Purchase of minerals in place	13	11	
Sale of minerals in place	(2)	(19)	
	(48)	(142)	(199)
Total revisions and changes before income taxes	381	169	(20)
Net changes in income taxes	(165)	13	8
Total revisions and changes	216	182	(12)
Discounted future net cash flows, at beginning of year	1,101	919	931
Discounted future net cash flows, at end of year	$1,317	$1,101	$ 919

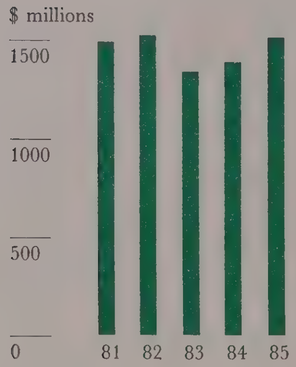
Revenue: distilled spirits



Earnings from operations: distilled spirits



Assets: distilled spirits



Revenue increased five per cent in 1985 as a result of the positive impact of the strong United States dollar, together with higher selling prices for certain brands, higher volumes and a favourable change in product mix towards premium products. In 1984, the three per cent increase in revenue resulted from similar factors; however, the contribution was partially offset by declines in European currencies.

Earnings from operations increased steadily in 1985 and 1984 from the low of $267 million in 1983. In both 1985 and 1984, the increase in revenue and resulting increase in gross margin was partially offset by increased investment in advertising and promotion in support of new products and certain principal brands in difficult and competitive markets.

Capital expenditures have remained relatively modest over the last three years following the completion in 1983 of a major modernization program.

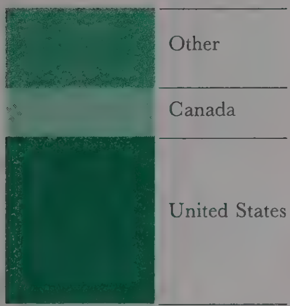
The growth in assets in 1985 resulted largely from stronger foreign currencies.

Financial data
($ millions)

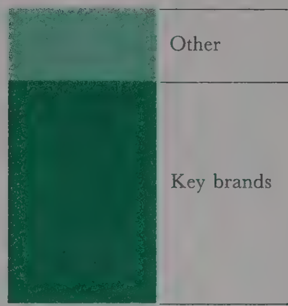
	1985	1984	1983	1982	1981
Revenue	$1,516	$1,448	$1,406	$1,455	$1,453
Cost of sales	809	778	771	812	811
Excise taxes and duties(1)	348	341	352	352	368
Earnings from operations	282	278	267	294	280
Assets	1,511	1,385	1,338	1,517	1,496
Capital expenditures	24	21	24	52	85
Depreciation	27	26	26	25	21

(1) Included in revenue and cost of sales.

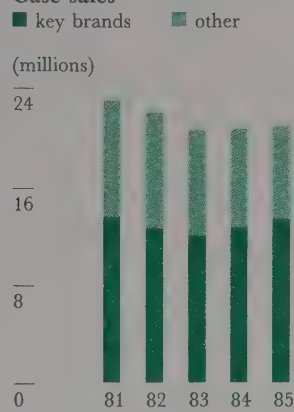
Geographic sales



Earnings from operations



Case sales

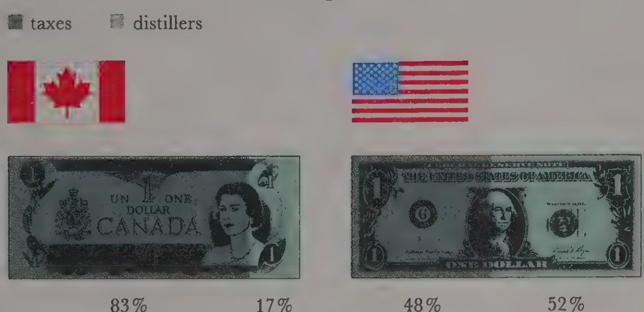


The United States is the Company's largest market, accounting for about 56 per cent of sales by volume. Canada represents 17 per cent while other countries make up the balance.

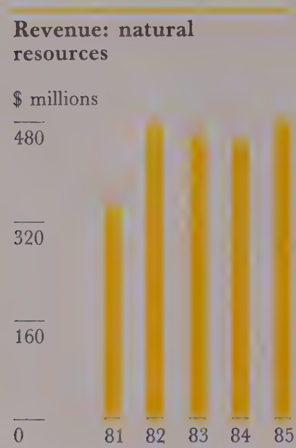
Over its 127-year history, the Company's portfolio of brands has expanded into almost every category of distilled spirits, including some of the world's most prestigious labels. While the Company has a broad and diverse portfolio of brands, the focus continues to be on a limited number of high-image, high-margin products. Five key brands - Ballantine's Scotch, Canadian Club, Kahlua, Courvoisier and Tia Maria, together with the line of United States liqueurs, account for about three-quarters of the earnings from operations.

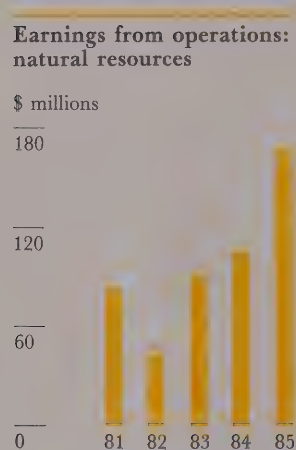
Against the background of greater competition and the soft economy in many world markets, the number of cases shipped, however, has increased modestly since 1983. Key brands and the United States liqueurs as a percentage of total cases shipped has increased from 58 per cent in 1981 to 64 per cent in 1985.

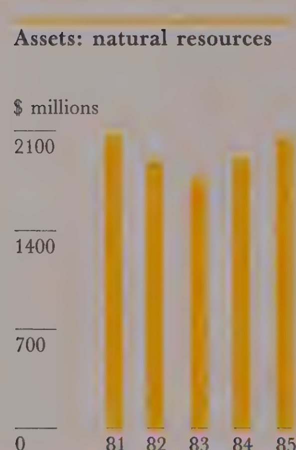
Government share of distilled spirits dollar



Combined federal and provincial taxes in Canada account for about 83 per cent of the retail price of a bottle of spirits. In the United States, federal and state taxes represent about 48 per cent, including the October 1, 1985, increase in the federal excise tax.







Higher volumes and prices overall, and lower Canadian oil royalties, combined to increase revenue by seven per cent in 1985.

Slightly higher oil production in the United States, new oil production in Indonesia, and the 11 per cent improvement in Canadian gas sales more than offset the four per cent gas sales decline in the United States.

The impact of higher Canadian oil prices and United States gas prices more than offset the impact of lower Canadian gas prices and United States oil prices.

In 1984, revenue declined slightly. Lower volumes in the United States exceeded the increase in revenue in Canada resulting from both higher volumes and prices.

Earnings from operations increased by 59 per cent or $62 million in 1985. The improved performance reflected higher revenue in both Canada and the United States and lower depletion charges and operating expenses in the United States operations.

The improvement in earnings from operations in 1984 resulted from significantly lower depletion charges and reduced expenses in the United States due to administrative efficiencies.

Capital expenditures, after incentives, totalled $284 million in 1985, up from the $207 million recorded in 1984 and $146 million in 1983. Exploration expenditures accounted for $163 million of total expenditures; development and other $121 million.

The tabular information presented on pages 47, 48 and 49, excludes Sovereign Oil & Gas PLC which is accounted for using the equity method. In 1985, the Company's share of Sovereign's production amounted to about 1,700 barrels of oil per day.

Financial data
($ millions)

	1985	1984	1983	1982	1981
Revenue	$ 482	$ 451	$ 459	$ 477	$ 349
Cost of sales	132	133	150	160	130
Earnings from operations	167	105	91	42	83
Assets	2,052	1,912	1,763	1,884	2,071
Capital expenditures	284	207	146	208	223
Depletion and depreciation	151	163	183	232	112

Proved reserves

	1985		1984		1983		1982		1981	
September 30	Gross	*Net*	Gross	*Net*	Gross	*Net*	Gross	*Net*	Gross	*Net*
Crude oil and natural gas liquids(1)										
Canada	106	*83*	102	*76*	102	*69*	105	*71*	118	*77*
United States	12	*9*	12	*10*	13	*11*	12	*9*	13	*10*
International	1	*1*	2	*1*	1	*1*	1	*1*		
	119	*93*	116	*87*	116	*81*	118	*81*	131	*87*
Natural Gas(2)										
Canada	956	*766*	951	*732*	944	*703*	913	*676*	949	*686*
United States	165	*132*	155	*125*	145	*118*	128	*103*	159	*126*
	1121	*898*	1106	*857*	1089	*821*	1041	*779*	1108	*812*

(1) Millions of barrels. *(2) Billions of cubic feet.*

Gross proved reserves of oil and liquids remained relatively constant since 1982. Drilling and improved reservoir performance largely offset production. The eight per cent increase in gross proved reserves of gas since 1982 was due to drilling and improved reservoir performance which more than offset sales. In Canada, net proved reserves of oil, liquids and gas, those reserves after the deduction of royalties, increased substantially since 1982 reflecting a growing portion of reserves qualifying for the lower "new oil and gas" royalty rates, as well as the reduction in marginal royalty rates introduced in Alberta in 1985. Net proved reserves of gas in the United States increased by 28 per cent since 1982 because of drilling and lower production rates due to soft demand.

Daily production

	1985		1984		1983		1982		1981	
Year ended September 30	Gross	*Net*	Gross	*Net*	Gross	*Net*	Gross	*Net*	Gross	*Net*
Crude oil and natural gas liquids(1)										
Canada	26.5	*19.4*	26.7	*19.0*	25.8	*17.7*	26.7	*18.1*	27.9	*18.4*
United States	5.4	*4.3*	5.0	*3.9*	5.4	*4.6*	6.2	*5.3*	4.5	*3.7*
International	.9	*.7*	.4	*.3*						
	32.8	*24.4*	32.1	*23.2*	31.2	*22.3*	32.9	*23.4*	32.4	*22.1*
Natural Gas(2)										
Canada	117	*90*	105	*82*	97	*71*	108	*80*	107	*77*
United States	46	*36*	48	*38*	58	*49*	82	*68*	59	*49*
	163	*126*	153	*120*	155	*120*	190	*148*	166	*126*

(1) Thousands of barrels per day. *(2) Millions of cubic feet per day.*

Gross production of oil and liquids remained fairly steady over the last five years as new sources of production were sufficient to offset production declines from mature fields. Gross sales of gas in Canada benefitted in 1985 from increased sales to the United States, despite soft demand, as a result of competitive pricing. In the United States, however, gas sales remained below their 1982 high due to lower demand. In Canada, net oil and liquids production, and net gas sales, after the deduction of royalties, reflected an upward trend due to the larger proportion of production qualifying for lower "new oil and gas" royalty rates and royalty free periods.

Average prices, royalties, production costs and depletion rates	1985	1984	1983	1982	Year ended September 30 1981
Canada					
Crude oil and natural gas liquids					
Sales price per barrel	$33.06	$31.71	$29.15	$23.14	$17.30
Royalty rate	27.4%	29.1%	30.5%	32.5%	34.8%
Natural Gas					
Sales price per thousand cubic feet	$ 2.75	$ 2.94	$ 2.91	$ 2.72	$ 2.56
Royalty rate	22.7%	22.6%	24.1%	26.5%	27.7%
Production cost per unit	$ 3.03	$ 2.89	$ 2.74	$ 2.37	$ 2.00
Depletion rate per unit	$ 4.16	$ 3.62	$ 3.26	$ 2.68	$ 2.42
United States					
Crude oil and natural gas liquids					
Sales price per barrel	$34.74	$35.11	$35.66	$38.67	$44.28
Royalty rate (estimated)	20.0%	20.0%	16.5%	16.5%	16.5%
Natural gas					
Sales price per thousand cubic feet	$ 4.83	$ 4.40	$ 4.23	$ 3.85	$ 3.14
Royalty rate (estimated)	20.0%	20.0%	16.5%	16.5%	16.5%
Production cost per unit	$ 5.35	$ 5.90	$ 5.76	$ 4.26	$ 3.69
Depletion rate per unit	$13.83	$18.81	$21.75	$20.65	$17.82

In Canada, oil prices increased due to the gradual movement to world price and the strengthening of the United States dollar used to denominate the world price. In the United States, oil prices expressed in Canadian dollars declined due to softer world markets; however, the rate of decline was moderated by the strength of the United States dollar relative to the Canadian dollar. The decline in Canadian royalty rates reflected a more favourable royalty regime, including an increased use of royalty free periods for new production. Canadian and United States production costs and depletion rates during the five year period reflected inflationary trends. The decline in the 1985 United States depletion rate from its 1983 high partially reflected the improved performance of the natural resources business. Average unit production costs and depletion rates were computed after converting natural gas into equivalent barrels of oil based on relative energy content whereby 6,000 cubic feet of gas equals one barrel of oil.

Undeveloped land holdings (millions of acres)	1985		1984		1983		1982		September 30 1981	
	Gross	*Net*	Gross	*Net*	Gross	*Net*	Gross	*Net*	Gross	*Net*
Canada										
Western provinces	5.3	*2.0*	4.8	*2.0*	5.1	*2.2*	5.9	*2.3*	6.4	*2.6*
Beaufort/Mackenzie Delta	1.5	*0.2*	1.2	*0.2*	1.0	*0.2*	0.6	*0.1*	0.6	*0.1*
Arctic Islands and other	5.6	*0.4*	5.7	*0.4*	13.4	*1.0*	14.6	*1.2*	14.6	*1.2*
	12.4	*2.6*	11.7	*2.6*	19.5	*3.4*	21.1	*3.6*	21.6	*3.9*
United States	1.3	*0.8*	2.2	*0.8*	3.9	*1.4*	3.2	*1.7*	3.0	*1.7*
International										
Australia	5.4	*0.8*	4.7	*0.6*	6.8	*0.9*	2.2	*0.3*	1.6	*0.3*
Indonesia	4.4	*0.2*	3.0	*0.1*	2.9	*0.1*	3.9	*0.1*	3.9	*0.1*
Other	0.3		3.5	*1.1*	1.9	*1.1*	4.1	*1.5*	4.4	*1.8*
	10.1	*1.0*	11.2	*1.8*	11.6	*2.1*	10.2	*1.9*	9.9	*2.2*
	23.8	*4.4*	25.1	*5.2*	35.0	*6.9*	34.5	*7.2*	34.5	*7.8*

Undeveloped land holdings, on both a gross and net basis, declined since 1981. The relinquishment of less attractive properties, notably on the east coast of Canada in 1984 (listed under "Arctic Islands and other"), contributed to the reduction. Undeveloped land holdings, refer to exploratory lands on which wells have not been drilled or completed to a point that would permit production. "Gross" refers to the total number of acres in which a working or overriding royalty interest is held. "Net" is determined by multiplying the gross acres by the percentage

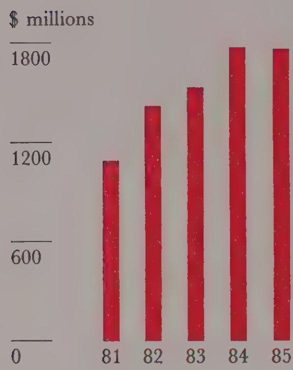
of the working interests held by the Company in the gross acres. Overriding royalty interests are excluded in calculating net acres. Also excluded are 2,118 thousand gross acres (553 thousand net) of developed lands from which production is being obtained or is capable of being obtained, as well as the 33 million gross acres of land, including 20 million acres in the western provinces, on which the Company has the opportunity to explore under the 1983 farmin with Dome Petroleum Limited.

Wells drilled										Year ended September 30
	1985		1984		1983		1982		1981	
	Gross	*Net*	Gross	*Net*	Gross	*Net*	Gross	*Net*	Gross	*Net*
Canada										
Exploratory										
Oil	84	*19*	42	*15*	12	*7*	8	*3*	2	*1*
Gas	55	*9*	26	*5*	6	*2*	3	*2*	11	*3*
Dry	114	*24*	73	*19*	16	*9*	8	*3*	8	*4*
	253	*52*	141	*39*	34	*18*	19	*8*	21	*8*
Development										
Oil	246	*44*	199	*53*	77	*23*	30	*14*	76	*25*
Gas	48	*11*	40	*7*	35	*8*	38	*8*	58	*14*
Dry	78	*27*	52	*13*	25	*7*	16	*8*	37	*20*
	372	*82*	291	*73*	137	*38*	84	*30*	171	*59*
United States										
Exploratory										
Oil	6	*3*	2	*1*	1		4	*1*	5	*4*
Gas	3	*2*	4	*2*			5	*2*	2	
Dry	15	*8*	23	*13*	10	*4*	23	*12*	16	*6*
	24	*13*	29	*16*	11	*4*	32	*15*	23	*10*
Development										
Oil	25	10	38	*6*	34	*6*	30	*7*	40	*19*
Gas	21	4	14	*3*	7	*2*	39	*8*	22	*6*
Dry	8	*2*	15	*2*	22	*2*	32	*8*	23	*9*
	54	*16*	67	*11*	63	*10*	101	*23*	85	*34*
International										
Exploratory										
Oil	12	*2*	4	*1*	2	*1*	1	*1*	2	
Dry	12	*1*	10	*1*	5	*1*	6	*1*	5	*1*
	24	*3*	14	*2*	7	*2*	7	*2*	7	*1*
Development										
Oil	1		6		10		2			
Dry			1							
	1		7		10		2			
Total	728	166	549	*141*	262	*72*	245	*78*	307	*112*

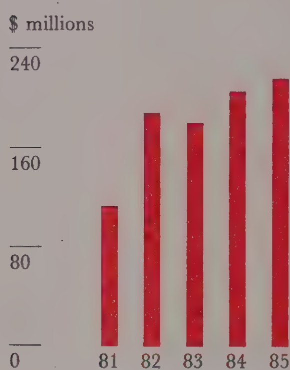
In Canada, exploratory and development drilling increased significantly due to the 1983 farmin on lands owned by Dome Petroleum Limited, coupled with a more aggressive program on Company-owned lands. In the United States, following the 1982 peak, activities were consolidated by drilling fewer wells but concentrating on those properties where working interests were higher. Activity internationally increased steadily over the period. "Gross" refers to the number of wells in which a working interest is held. "Net" refers to the aggregate of each of the gross wells multiplied by the percentage working interest held.

SEGMENT DISCUSSION • GAS UTILITY

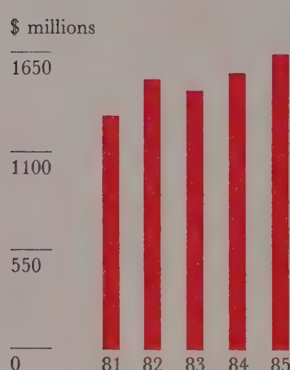
Revenue: gas utility



Earnings from operations: gas utility



Assets: gas utility



Revenue decreased marginally in 1985 compared with 1984. The benefit of higher industrial market sales and the larger number of customers served was more than offset by the adverse impact of warmer weather. The increase in revenue in 1984 resulted largely from colder weather and the improved economy.

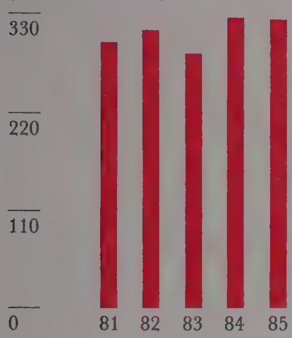
Earnings from operations increased by $10 million to $216 million during 1985 primarily as a result of non-recurring gas costs which adversely affected 1984's results. The improvement in 1984's earnings from operations of $26 million to $206 million was due primarily to colder weather.

Capital expenditures in 1985 related primarily to customer additions which accounted for 71 per cent of total expenditures.

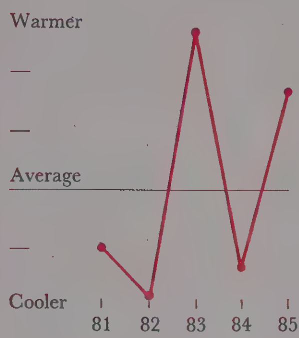
Financial data
($ millions)

	1985	1984	1983	1982	1981
Revenue					
Gas sales					
Residential	$ 579	$ 588	$ 501	$ 478	$ 343
Commercial	581	599	530	485	370
Industrial	552	534	460	417	344
	1,712	1,721	1,491	1,380	1,057
Other	55	56	47	48	42
	$1,767	$1,777	$1,538	$1,428	$1,099
Cost of sales	$1,420	$1,450	$1,248	$1,136	$ 898
Gas costs	1,353	1,383	1,191	1,081	851
Earnings from operations	216	206	180	188	113
Assets	1,634	1,533	1,439	1,501	1,301
Capital expenditures	120	97	93	98	96
Depletion and depreciation	48	44	41	37	32

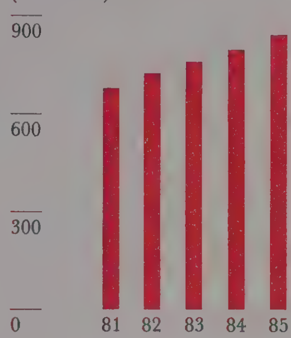
Gas sales



Average temperature



Active customers



The quantity of gas sold relates primarily to the weather, the economy and the number of customers served. Volumes sold in 1985 and 1983 were affected by mild weather. The economic recovery of 1984 and 1985 primarily affected industrial sales. Over the past five years the number of residential and commercial customers served has increased by 24 per cent.

Other data

	1985	1984	1983	1982	1981
Gas sales (billions of cubic feet)					
Residential	89	91	78	88	81
Commercial	114	118	107	116	109
Industrial	119	115	99	105	107
	322	324	284	309	297
Number of active customers (thousands)					
Residential	761	719	687	654	612
Commercial	74	70	66	63	60
Industrial	7	7	7	7	6
	842	796	760	724	678
Average revenue (per thousand cubic feet)					
Residential	$6.52	$6.48	$6.41	$5.44	$4.22
Commercial	$5.07	$5.07	$4.97	$4.20	$3.39
Industrial	$4.63	$4.64	$4.63	$3.96	$3.22
Average use per customer (thousands of cubic feet)					
Residential	117	127	114	135	134
Commercial	1,540	1,685	1,621	1,841	1,816
Industrial	17,000	16,429	14,143	15,000	17,833
Daily sendout (millions of cubic feet)					
Maximum	2,022	2,027	1,937	1,958	1,856
Minimum	281	272	257	243	249
Average	889	897	788	850	825
Miles of mains in use (year end)	11,593	11,181	10,929	10,718	10,233

FIVE YEAR FINANCIAL REVIEW

Financial results

	1985	1984	1983	1982(1)	1981(1)
	(expressed in millions except per share amounts)				
Earnings					
Revenue					
Distilled spirits	$1,516	$1,448	$1,406	$1,455	$1,453
Natural resources	482	451	459	477	349
Gas utility	1,767	1,777	1,538	1,428	1,099
	$3,765	$3,676	$3,403	$3,360	$2,901
Earnings from operations					
Distilled spirits	$ 282	$ 278	$ 267	$ 294	$ 280
Natural resources	167	105	91	42	83
Gas utility	216	206	180	188	113
	$ 665	$ 589	$ 538	$ 524	$ 476
Earnings before income taxes and other items	$ 495	$ 412	$ 347	$ 277	$ 296
Income taxes	(213)	(186)	(138)	(136)	(62)
Equity in earnings of Interprovincial	33	30			
Other items, net	(33)	(27)	(23)	1	16
Earnings before unusual item	282	229	186	142	250
Benefit of prior years' tax losses	37	16			
Provision for impairment				(177)	
Earnings (loss)	$ 319	$ 245	$ 186	$ (35)	$ 250
Financial position					
Capital expenditures(2)	$ 428	$ 325	$ 263	$ 358	$ 404
Identifiable assets(3)					
Distilled spirits	$1,511	$1,385	$1,338	$1,517	$1,496
Natural resources	2,052	1,912	1,763	1,884	2,071
Gas utility	1,634	1,533	1,439	1,501	1,301
Interprovincial	269	245			
Corporate	282	256	300	62	50
	$5,748	$5,331	$4,840	$4,964	$4,918
Long term debt (excluding current portion)					
Non-utility	$ 820	$ 884	$1,019	$1,168	$1,225
Utility	650	569	602	554	513
	$1,470	$1,453	$1,621	$1,722	$1,738
Shareholders' equity					
Preference	$ 725	$ 739	$ 508	$ 508	$ 460
Common	1,565	1,255	1,116	1,195	1,362
	$2,290	$1,994	$1,624	$1,703	$1,822

(1) Not adjusted for change in method of accounting for foreign currency translation effective October 1, 1982.

(2) Excludes acquisition of United States natural resource properties in 1981.

(3) Restated to identify corporate assets comprising cash and other investments.

Financial statistics

	1985	1984	1983	1982	1981
	(expressed in millions except per share amounts)				
Earnings (loss) per share					
Basic: before unusual item	$2.89	$2.32	$2.03	$ 1.43	$3.23
after unusual item	$3.34	$2.51	$2.03	$(1.13)	$3.23
Fully diluted: before unusual item	$2.66	$2.19	$2.01	$ 1.43	$3.02
after unusual item	$3.00	$2.34	$2.01	$(1.13)	$3.02
Common Shares and Class D Preference Shares, Second Series (note 11(b))					
Outstanding at year end	83.8	81.1	70.5	69.5	69.1
Weighted average during year	82.8	80.2	70.0	69.2	68.9
Dividends	$ 116	$ 105	$ 93	$ 91	$ 91
Dividend payout ratio	42.0%	52.0%	65.5%	91.9%	40.9%
Annual dividend per share	$1.40	$1.32	$1.32	$ 1.32	$1.32
Return on equity	16.8%	14.2%	12.7%	(6.1)%	17.1%
Long term debt as a percentage of long term debt and shareholders' equity	39%	42%	50%	50%	49%
Current ratio	1.8 ×	1.7 ×	1.9 ×	2.1 ×	1.9 ×
Net interest coverage ratio	3.6 ×	2.9 ×	2.3 ×	1.9 ×	2.2 ×

Quarterly financial information

	1985				1984			
	Quarter				Quarter			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Revenue	$1,060	$1,181	$ 840	$ 684	$1,008	$1,165	$ 837	$ 666
Gross margin	$ 407	$ 374	$ 331	$ 292	$ 363	$ 363	$ 318	$ 271
Earnings before unusual item	$ 108	$ 92	$ 67	$ 15*	$ 79	$ 82	$ 60	$ 8*
Earnings	$ 108	$ 92	$ 67	$ 52	$ 79	$ 82	$ 60	$ 24
Earnings (loss) per share								
Basic								
Before unusual item	$ 1.19	$ 0.98	$0.68	$0.04*	$ 0.85	$ 0.89	$0.61	$ (0.03)*
After unusual item	$ 1.19	$ 0.98	$0.68	$0.49	$ 0.85	$ 0.89	$0.61	$ 0.16
Fully diluted								
Before unusual item	$ 1.02	$ 0.86	$0.63	$0.04*†	$ 0.78	$ 0.77	$0.57	$(0.03)*†
After unusual item	$ 1.02	$ 0.86	$0.63	$0.49	$ 0.78	$ 0.77	$0.57	$ 0.16

**The benefits of prior years' tax losses 1985 – $37 million ($0.45 per share basic, $0.34 fully diluted); 1984 – $16 million ($0.19 per share basic and fully diluted), were reclassified as an unusual item at the end of the fourth quarter of each year when the amounts were finally determined. Before the fourth quarter of each year, the benefits were included in earnings before unusual item as a reduction of income taxes.*

†Full dilution basis is antidilutive.

Hiram Walker Resources Ltd.

Interprovincial Pipe Line
(34.4%; Canada)

DISTILLED SPIRITS
Hiram Walker-Gooderham & Worts
(Canada)

- Hiram Walker & Sons (Canada)
- Hiram Walker Brands (Canada)
- Corby Distilleries (52.3%; Canada)
- Maidstone Wine & Spirits (U.S.)
- Hiram Walker & Sons (U.S.)
- Hiram Walker Incorporated (U.S.)
- W.A. Taylor (U.S.)
- Frederick Wildman & Sons (U.S.)
- Maker's Mark (U.S.)
- Callaway Vineyard & Winery (U.S.)
- Kahlua (Mexico)
- Tia Maria (78.8%; Jamaica)
- Hiram Walker S.A. (Argentina)
- Drambuie (25%; U.K.)
- Hiram Walker & Sons (U.K.)
- Hiram Walker International (U.K.)
- Courvoisier (France)
- J. Moreau et Fils (50.0%; France)
- Hiram Walker Europa (50.0%; Spain)
- Pedro Domecq (14.0%; Spain)
- Bacardi (12.0% various)

NATURAL RESOURCES
Home Oil
(Canada)

- Scurry-Rainbow (88.1%; Canada)
- Federated Pipe Lines (50.0%; Canada)
- Home Petroleum (U.S.)
- Home Energy (60.0%; Australia)
- Sovereign Oil & Gas (22.9%; U.K.)
- Home Oil Malacca Strait (Indonesia)

GAS UTILITY
Consumers' Gas
(83.5%; Canada)

- Gazifere (Canada)
- Tecumseh Gas (50.0%; Canada)
- Underwater Gas Developers (Canada)
- St. Lawrence Gas (U.S.)

Selected subsidiaries and investments by segment
(% owned; country)

Geographic distribution of voting shares
(millions)

	Common Shares		Class D, First Series 7½% Preference Shares		Class D, Second Series Preference Shares		Total Voting Shares	
	number	per cent	number	per cent	number	per cent	number	per cent
Canada	66.9	89.3	13.5	98.5	13.6	100.0	93.9	91.9
U.S.A.	7.6	10.2	0.2	1.5			7.9	7.7
Other	0.4	0.5					0.4	0.4
	74.9	100.0	13.7	100.0	13.6	100.0	102.2	100.0

Tax, share price and dividend information

Withholding tax

Cash dividends paid to shareholders resident in the United States, the United Kingdom and most western European countries are generally subject to Canadian withholding tax at a rate of 15 per cent. Cash dividends paid to other non-residents of Canada are generally subject to Canadian withholding tax at a minimum rate of 25 per cent, depending upon applicable tax treaties. Interest payable on the Company's debt securities held by non-Canadian residents may also be subject to Canadian withholding tax depending upon the terms and provisions of the securities.

Quarterly share price and dividend payments

	High/low market prices		Dividend
1985	Toronto	New York	(payment date)
1st	**$25⅝ - 22¾**	**$19½ - 17⅞**	**$ .35 (January 1)**
2nd	**30⅜ - 24¼**	**22⅜ - 18⅛**	**.35 (April 1)**
3rd	**31½ - 28⅝**	**23⅛ - 21**	**.35 (July 1)**
4th	**34⅛ - 30¼**	**25⅜ - 22¼**	**.35 (October 1)**
1984			
1st	$29¼ - 25⅜	$23⅝ - 20⅝	$ .33 (January 1)
2nd	28⅞ - 23¼	22⅞ - 18¼	.33 (April 1)
3rd	24⅜ - 21	19 - 16¼	.33 (July 1)
4th	25½ - 20⅝	19¼ - 15⅝	.33 (October 1)

The high and low market prices were established on the Toronto and New York stock exchanges, the principal trading markets of the Common Shares. New York prices are in United States dollars.

Securities, stock exchange listings and transfer agents

Securities	*Stock exchange listings*
Common Shares(1)(2)	Toronto/Montreal/ New York
Class A 14.16% Preference Shares(3)	Toronto/Montreal
Class B 9½% Preference Shares(1)	Toronto/Montreal
Class D, First Series, 7½% Preference Shares(1)	Toronto/Montreal
1986 Warrants(1)	Toronto/Montreal
1988 Warrants(4)	Toronto/Montreal

See note 11, Page 32, for a more detailed description of securities. The listing symbol for Common Shares on all stock exchanges is **HWR** *and is reported in Canadian newspapers under the W's as WalkerR, and in United States newspapers under the W's as WkHRs.*

Transfer agents

(1) **Canada Permanent Trust Company**
20 Eglinton Avenue West
Toronto, Ontario
M4R 2E2
and in Montreal, Calgary and Vancouver

(2) **Morgan Guaranty Trust Company of New York**
30 West Broadway
New York, New York
10007

(3) **National Trust Company**
21 King Street East
Toronto, Ontario
M5C 1B3
and in Montreal, Calgary and Vancouver

(4) **Royal Trust Company**
P.O. Box 7500, Station "A", Toronto, Ontario
M5W 1P9
and in Montreal, Calgary and Vancouver

Directors

Richard E. Cross (3)
Counsel
Cross, Wrock, Miller & Vieson

A. E. Downing (1)
Chairman, President and Chief Executive Officer of the Company

Charles T. Fisher, III (1)
Chairman and President
National Bank of Detroit

W. Douglas H. Gardiner
President
WDHG Financial Associates Limited

Gordon C. Gray (1) (2)
Chairman
Royal LePage Limited

Richard F. Haskayne
Executive Vice President of the Company
President
Home Oil Company Limited

H. Clifford Hatch (1)
Corporate Director

H. Clifford Hatch, Jr.
Executive Vice President of the Company
President
Hiram Walker-Gooderham & Worts Limited

Robert S. Hurlbut (2) (3)
Chairman
General Foods, Inc.

Henry N. R. Jackman (1) (4)
Chairman
The Empire Life Insurance Company

Lucille M. Johnstone
President
RivTow Straits Limited

Allen T. Lambert (1) (4)
Chairman
Trilon Financial Corporation

Peter L. P. Macdonnell, Q.C.
Partner
Milner & Steer

Robert W. Martin
Executive Vice President of the Company
President
The Consumers' Gas Company Ltd.

Edmond G. Odette (2)
President
Eastern Construction Company Limited

Stanley G. Olson (3)
Corporate Director

John T. Sapienza
Partner
Covington & Burling

Robert C. Scrivener (3)
Corporate Director

Noah Torno (1) (3)
Corporate Director

William P. Wilder (1) (4)
Chairman
The Consumers' Gas Company Ltd.

Member of:
1. Executive Committee
2. Audit Committee
3. Management Resources Committee
4. Pension Committee

Executive officers

A. E. Downing
Chairman
President and Chief Executive Officer

Richard F. Haskayne
Executive Vice President

H. Clifford Hatch, Jr.
Executive Vice President

Robert W. Martin
Executive Vice President

A. R. McCallum
Senior Vice President and Chief Financial Officer

W. R. Fatt
Vice President and Treasurer

J. B. Petrie
Vice President and Comptroller

E. W. H. Tremain
Vice President and Secretary

Executive office

Hiram Walker Resources Ltd.
Suite 600, 1 First Canadian Place
P.O. Box 33,
Toronto, Ontario M5X 1A9
Telephone (416) 864-3300

Principal offices

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2072 Riverside Drive East
P.O. Box 2518,
Windsor, Ontario N8Y 4S5
Telephone (519) 254-5171

Home Oil Company Limited
1700 Home Oil Tower
324 Eighth Avenue South West
Calgary, Alberta T2P 2Z5
Telephone (403) 232-7100

The Consumers' Gas Company Ltd.
100 Simcoe Street
Toronto, Ontario M5H 3G2
Telephone (416) 591-6611

Form 10-K

A Form 10-K Annual Report is filed with the United States Securities and Exchange Commission. A copy is available by writing to the Company.

Dividend plan

Registered shareholders of Common Shares and 7½% Convertible Class D Preference Shares are eligible to participate in the Stock Dividend, Dividend Reinvestment and Stock Purchase Plan. Details may be obtained by writing to the Company.

Annual meeting

The Annual Meeting of Shareholders will be held in The Cleary Auditorium and Memorial Convention Hall, 201 Riverside Drive West, Windsor, Ontario, on Wednesday, February 5, 1986, at 11:00 a.m.

Rapport annuel

On peut se procurer l'édition française de ce rapport en écrivant à la Société.

Printed in Canada